

**Michigan Municipal Bond Authority  
of the State of Michigan  
(A Component Unit of the  
State of Michigan)**

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**Financial Report  
With Supplemental Information  
September 30, 2004**



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of the State of Michigan  
(A Component Unit of the  
State of Michigan)**

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# Michigan Municipal Bond Authority of the State of Michigan

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## Independent Auditor's Report

Michigan Municipal Bond Authority  
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA  
Auditor General  
State of Michigan  
Lansing, Michigan

We have audited the accompanying basic financial statements of the Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the years ended September 30, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Municipal Bond Authority at September 30, 2004 and 2003, and the changes in the financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (Unaudited) presented on pages 5 through 11 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Michigan Municipal Bond Authority  
Lansing, Michigan  
and

Mr. Thomas H. McTavish, CPA  
Auditor General  
State of Michigan  
Lansing, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2004, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 27, 2004

## **Report Letter on Compliance With Laws and Regulations and Internal Controls**

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## Report Letter on Compliance With Laws and Regulations and Internal Controls

Michigan Municipal Bond Authority  
Lansing, Michigan  
and

Mr. Thomas H. McTavish, CPA  
Auditor General  
State of Michigan  
Lansing, Michigan

We have audited the basic financial statements of Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated October 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Michigan Municipal Bond Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Municipal Bond Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Michigan Municipal Bond Authority  
Lansing, Michigan  
and

Mr. Thomas H. McTavish, CPA  
Auditor General  
State of Michigan  
Lansing, Michigan

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Michigan Municipal Bond Authority and the Auditor General of the State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 27, 2004



## **Management's Discussion and Analysis (Unaudited)**

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# **Michigan Municipal Bond Authority of the State of Michigan**

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## **Management's Discussion and Analysis (Unaudited)**

### **Financial Position and Results of Operations**

We are pleased to present the financial statements for the Michigan Municipal Bond Authority (the Authority). The Authority is a non-profit agency, established by the Shared Credit Rating Act, Public Act 227 of 1985, to provide local governments and schools cost-effective choices for borrowing funds. The Authority's programs are designed to meet the financing needs of the borrowers while offering a simplified borrowing process with highly competitive rates and reduced cost of issuance. Since 1986, the Authority has issued loans totaling \$12 billion to assist communities and schools with their financing needs. These financings have resulted in more than 5,300 loans. All cities, counties, townships, schools, public hospitals, colleges, and universities are eligible to use the Authority on a voluntary basis.

The Authority is a public body corporate within the Michigan Department of Treasury. The Authority is governed by a Board of Trustees, which provides overall governing direction for the Authority. The State Treasurer serves as chairperson on the board of trustees. The Governor with the advice and consent of the State Senate appoints the members of the Board of Trustees.

The basis of the Authority's financing programs is the pooling of local government loans. The Authority gathers or pools various types and sizes of local government bonds, notes, and installment purchase agreements. The Authority sells a similar amount of debt in the regional and national public finance markets and lends the monies received from the sale to the participating municipal borrowers. The Authority consistently offers interest rates that compare favorably with Michigan and national pricing indices. Also, the Authority's reputation and name recognition in the capital markets creates demand for the Authority's securities, translating to lower interest rates for borrowers. Additionally, borrowers on a pro-rata basis share costs of issuance, typically resulting in lower costs than each borrower would pay individually. As the Authority can lower the interest rate and issuing costs for Michigan governments, the result is fewer tax dollars expended for debt by Michigan taxpayers. As borrowers make repayments the Authority uses these funds to repay its bond or note holders. Each borrower pays a pro-rata share of costs of issuance and is only responsible for their own loan.

# Michigan Municipal Bond Authority of the State of Michigan

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## Management's Discussion and Analysis (Unaudited) (Continued)

### Financial Position and Results of Operations (Continued)

The Authority offers a variety of programs to provide financing options to local units of government or schools needing loans. A community or school may borrow for such purposes as new building and land purchases; water and sewer projects; fire trucks; police cars; school busses or other equipment needs; road improvements; energy conservation; refundings; cash flow; or other legally authorized projects and purposes. These programs include:

- Local Government Loan Program that provides competitive interest rates for 3 to 30 year loans. The Authority issues several types of bonds under this program: Revenue Sharing, Transportation Fund, School Aid and Insured, Local Project Bonds and Qualified School Bonds. The Authority has also been the major issuer of Fiscal Stabilization Bonds. The Authority issued bonds totaling \$67.985 million for the fiscal year ended September 30, 2004. As part of the issued bonds, refunding opportunities resulted in 31 refundings producing over \$2.2 million in present value savings, and reduced total debt service payments by \$5.9 million.
- State Aid Note Program offers a simplified borrowing process for schools to fund short-term cash flow needs for operating purposes. The program allows schools to pool their loans with those of other schools, resulting in competitive rates and reduced costs of issuance. This program began in 1987 and in FY 2004 financings totaled \$832.25 million providing 239 loans for school districts.
- State Revolving Fund provides low cost financing for municipal wastewater facilities and drinking water projects through the Clean Water and Drinking Water programs. The Authority jointly administers these programs with the Michigan Department of Environmental Quality, which determines qualified projects and annual funding priority. The Authority issued \$354.5 million of State Revolving Fund bonds in April 2004. These bonds will provide proceeds to fund anticipated draws through mid-September 2005. On December 18, 2003, the State of Michigan issued the first \$100 million of Great Lakes Water Quality Bonds with \$90 million available as needed to provide collateral for bonds issued in the State Revolving Fund. The remaining \$10 million of these bonds is available to provide collateral for bonds issued in the Strategic Water Quality Initiative Fund.
- Local Government Financing Program offers options and flexibility for borrowers through Financing Agreements that provide funds as needed. Qualified borrowers are able to apply for loans as needed. The Authority has partnered with an underwriter to offer this program. The program is a pass through financing for the Authority and as such the Authority does not reflect a liability for these loans in its financial statements.

# **Michigan Municipal Bond Authority of the State of Michigan**

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## **Management's Discussion and Analysis (Unaudited) (Continued)**

### **Financial Position and Results of Operations (Continued)**

- The Strategic Water Quality Initiatives Fund provides loans to municipalities for purpose such as septic system upgrades and replacements and other projects which are generally not eligible to be financed through the State Revolving Fund. This program is managed by the Authority and the Department of Environmental Quality. The \$10 million of Great Lakes Water Quality Bonds issued by the State of Michigan in December 2003 are available to provide collateral for the Series 2004A bonds issued in March 2004 and maturing in December 2004.

With the move to its new offices within the Treasury building, the Authority was incorporated into the Bureau of Bond Finance within the Department of Treasury. The Bureau houses several bonding authorities and the intent is to provide services to all authorities with greater economy of scale.

The enclosed financial statements present the Authority's balance sheet, revenue, expenses, and changes in fund equity, and cash flows. The following is a condensed summary of financial information for the years ended September 30, 2004 and 2003, respectively.

# Michigan Municipal Bond Authority of the State of Michigan

## Management's Discussion and Analysis (Unaudited) (Continued)

### Condensed Financial Information for General Fund, State Revolving Fund, and Strategic Water Quality Initiatives Fund (in thousands)

| <b>Net Assets</b>           | <b>2004</b>                | <b>2003</b>                | <b>Variance</b>          |          |
|-----------------------------|----------------------------|----------------------------|--------------------------|----------|
| Cash and investments        | \$ 1,593,888               | \$ 1,325,206               | \$ 268,682               | 20.27%   |
| Accrued interest receivable | 142,986                    | 139,590                    | 3,396                    | 2.43%    |
| Revenue notes receivable    | 762,067                    | 723,136                    | 38,931                   | 5.38%    |
| Bonds receivable            | 819,930                    | 869,000                    | (49,070)                 | (5.65%)  |
| Loans receivable            | 1,649,186                  | 1,472,985                  | 176,201                  | 11.96%   |
| Other receivables           | 23,690                     | 20,620                     | 3,070                    | 14.89%   |
| Deferred charges            | 25,630                     | 21,977                     | 3,653                    | 16.62%   |
| <b>Total assets</b>         | <b>5,017,377</b>           | <b>4,572,514</b>           | <b>444,863</b>           |          |
| Revenue notes payable       | 763,051                    | 723,727                    | 39,324                   | 5.43%    |
| Bonds payable               | 2,663,963                  | 2,367,291                  | 296,672                  | 12.53%   |
| Accrued interest payable    | 140,023                    | 137,116                    | 2,907                    | 2.12%    |
| Other liabilities           | 6,657                      | 10,294                     | (3,637)                  | (35.33%) |
| Deferred revenue            | 10,941                     | 12,389                     | (1,448)                  | (11.69%) |
| <b>Total liabilities</b>    | <b>3,584,635</b>           | <b>3,250,817</b>           | <b>333,818</b>           |          |
| <b>Total net assets</b>     | <b><u>\$ 1,432,742</u></b> | <b><u>\$ 1,321,697</u></b> | <b><u>\$ 111,045</u></b> |          |

# Michigan Municipal Bond Authority of the State of Michigan

## Management's Discussion and Analysis (Unaudited) (Continued)

### Condensed Financial Information for General Fund, State Revolving Fund, and Strategic Water Quality Initiatives Fund (in thousands) (Continued)

| <u>Operating Results</u>       | <u>2004</u>       | <u>2003</u>       | <u>Variance</u> |          |
|--------------------------------|-------------------|-------------------|-----------------|----------|
| Interest income                | \$ 139,878        | \$ 132,907        | \$ 6,971        | 5.25%    |
| Other income                   | 4,093             | 4,057             | 36              | 0.89%    |
| Total income                   | 143,971           | 136,964           | 7,007           |          |
| Interest expense               | 135,216           | 123,923           | 11,293          | 9.11%    |
| Amortization expense           | 4,488             | 3,902             | 586             | 15.02%   |
| Administrative expense         | 3,514             | 4,467             | (953)           | (21.33%) |
| Total expense                  | 143,218           | 132,292           | 10,926          |          |
| Operating income               | 753               | 4,672             | (3,919)         |          |
| Nonoperating revenue (expense) | 110,291           | 105,019           | 5,272           | 5.02%    |
| Change in net assets           | <u>\$ 111,044</u> | <u>\$ 109,691</u> | <u>\$ 1,353</u> | 1.23%    |

### Net Assets

Total assets increased from \$4.57 billion at September 30, 2003 to over \$5 billion at September 30, 2004. This increase is the result of an increase in cash and investments, revenue notes receivable, and loans receivable resulting from the Authorities financings.

The overall increase in cash is the result of the investments held for loans to communities as the result of the sale of the 2004 Clean Water and Drinking Water bonds. These bond issues provided over \$354 million available for future draws by municipalities for projects funded by these programs. Funds available for future draws are invested by the Authority until needed. Revenue Notes Receivable was increased as a result of the financings to schools to help the schools meet short-term cash flow needs. The 2004 financings for this program resulted in 239 loans to schools.

Loans Receivable increases of approximately \$176 million were the result of draws on loans by community and municipalities participating in the Clean Water and Drinking Water programs. Investments of the General Fund decreased about \$11 million as a result of payments made by the Authority for the School Loan Revenue Refunding Bonds issued in 2003. The restructuring of these bonds in 2003 deferred payments to the Authority until 2006. Payments from the state were not made in this fiscal year.

# **Michigan Municipal Bond Authority of the State of Michigan**

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## **Management's Discussion and Analysis (Unaudited) (Continued)**

### **Net Assets (Continued)**

Total liabilities increased from \$3.25 billion at fiscal year-end 2003 to \$3.58 billion at year-end 2004. This is the result of the increase in long-term debt consisting of Bonds Payable. During the fiscal year the Authority issued bonds of approximately \$422.5 million. More detailed information on debt outstanding is shown in Notes 4 and 9 of the audited financial statements. Long-term debt represents 75 percent of total liabilities. Funds for the Authority's debt payments come from the principal and interest repayments made by borrowers participating in the various loan programs of the Authority.

Unrestricted assets in the General Fund are reported as \$10.27 million. Restricted assets of the State Revolving Fund increased as a result of federal capitalization grants awarded to the Department of Environmental Quality (DEQ) and used in the Water Pollution and Drinking Water Programs to fund construction projects. Total Net Assets of the Authority are \$1.43 billion.

### **Results of Operations for the Year Ended September 30, 2004, Compared to the Year Ended September 30, 2003**

Overall operating income of \$753,506 is a decrease from the prior fiscal year as a result of lower interest earnings. As investments have matured, the reinvestment opportunities have been at much lower rates affecting interest income.

Revenue from interest earnings represents 97 percent of the Authority's total operating revenue. Other operating revenue consists of administrative fees and fees the Authority receives from its financing activities. Operating expenses reported at September 30, 2004 total \$143.2 million. Of this, the administrative expense is 2.45 percent of total operating expense. Salaries and benefits were decreased as the result of mandatory furlough days without pay, which was in place for 2004. In addition, as a result of cost-saving efforts, salaries, wages, and other administrative expenses were reduced 21.33 percent. The Authority processes the payment of administrative fees for the staff of the Department of Environmental Quality, the co-administrators of the State Revolving Fund. Funds for these administrative expenses are provided in part by a grant from the federal government.

# **Michigan Municipal Bond Authority of the State of Michigan**

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## **Management's Discussion and Analysis (Unaudited) (Continued)**

### **Contacting the Municipal Bond Authority**

In addition to its audited financial statements, the Authority issues an annual statistical report as required by statute. Interested parties may obtain such reports by contacting the Authority. Information on the Authority can be found at [www.michigan.gov/mmba](http://www.michigan.gov/mmba).

The contact information for the Authority is:

Michigan Municipal Bond Authority  
Treasury Building  
430 W. Allegan  
Lansing, MI 48922  
Phone (517) 335-0994



## **Basic Financial Statements**

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# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Net Assets

|  | Business-Type Activities |                         |                         |                         |  |             |                         |                         |
|--|--------------------------|-------------------------|-------------------------|-------------------------|--|-------------|-------------------------|-------------------------|
|  | General Fund             |                         | State Revolving Fund    |                         | Strategic Water Quality Initiatives Fund |             | Total                   |                         |
|  | September 30             |                         | September 30            |                         | September 30                             |             | September 30            |                         |
|  | 2004                     | 2003                    | 2004                    | 2003                    | 2004                                     | 2003        | 2004                    | 2003                    |
| <b>Assets</b>                            |                          |                         |                         |                         |  |             |                         |                         |
| <b>Current Assets</b>                    |                          |                         |                         |                         |  |             |                         |                         |
| Cash (Note 2)                            | \$ 74,610                | \$ 17,326               | \$ 228,717              | \$ 40,211               | \$ 208                                   | \$ -        | \$ 303,535              | \$ 57,537               |
| Investments (Note 2)                     | 7,750,061                | 35,338,322              | 552,450,818             | 324,279,108             | 717,752                                  | -           | 560,918,631             | 359,617,430             |
| Accrued interest receivable              | 23,022,583               | 21,228,677              | 11,640,611              | 13,431,206              | 2,315                                    | -           | 34,665,509              | 34,659,883              |
| Revenue notes receivable (Note 4)        | 762,067,185              | 723,135,722             | -                       | -                       | -  | -           | 762,067,185             | 723,135,722             |
| Bonds receivable (Note 5)                | 53,056,873               | 47,462,265              | -                       | -                       | -  | -           | 53,056,873              | 47,462,265              |
| Loans receivable:                        |                          |                         |                         |                         |  |             |                         |                         |
| State revolving (Note 6)                 | -                        | -                       | 91,456,983              | 75,798,346              | -  | -           | 91,456,983              | 75,798,346              |
| Public school academies (Note 7)         | 500,000                  | 420,000                 | -                       | -                       | -  | -           | 500,000                 | 420,000                 |
| State water quality initiatives (Note 8) | -                        | -                       | -                       | -                       | 45,000                                   | -           | 45,000                  | -                       |
| Receivable from State of Michigan        | -                        | -                       | 476,322                 | 521,604                 | 93,330                                   | -           | 569,652                 | 521,604                 |
| Other                                    | 125,704                  | 230,318                 | 5,644,369               | 879,569                 | -  | -           | 5,770,073               | 1,109,887               |
| Total current assets                     | 846,597,016              | 827,832,630             | 661,897,820             | 414,950,044             | 858,605                                  | -           | 1,509,353,441           | 1,242,782,674           |
| <b>Noncurrent Assets</b>                 |                          |                         |                         |                         |  |             |                         |                         |
| Investments (Note 2)                     | 16,268,624               | -                       | 1,016,397,431           | 965,530,843             | -  | -           | 1,032,666,055           | 965,530,843             |
| Accrued interest receivable              | 108,319,527              | 104,930,541             | -                       | -                       | -  | -           | 108,319,527             | 104,930,541             |
| Deferred charges, net (Note 3)           | 13,263,925               | 13,473,780              | 12,355,807              | 9,934,871               | 10,700                                   | -           | 25,630,432              | 23,408,651              |
| Bonds receivable (Note 5)                | 766,873,273              | 821,537,653             | -                       | -                       | -  | -           | 766,873,273             | 821,537,653             |
| Receivable from State of Michigan        | -                        | -                       | 17,350,000              | 18,990,000              | -  | -           | 17,350,000              | 18,990,000              |
| Loans receivable:                        |                          |                         |                         |                         |  |             |                         |                         |
| State revolving (Note 6)                 | -                        | -                       | 1,514,740,772           | 1,350,906,264           | -  | -           | 1,514,740,772           | 1,350,906,264           |
| Public school academies (Note 7)         | 41,800,000               | 45,860,000              | -                       | -                       | -  | -           | 41,800,000              | 45,860,000              |
| State water quality initiatives (Note 8) | -                        | -                       | -                       | -                       | 643,314                                  | -           | 643,314                 | -                       |
| Total noncurrent assets                  | 946,525,349              | 985,801,974             | 2,560,844,010           | 2,345,361,978           | 654,014                                  | -           | 3,508,023,373           | 3,331,163,952           |
| Total assets                             | <u>\$ 1,793,122,365</u>  | <u>\$ 1,813,634,604</u> | <u>\$ 3,222,741,830</u> | <u>\$ 2,760,312,022</u> | <u>\$ 1,512,619</u>                      | <u>\$ -</u> | <u>\$ 5,017,376,814</u> | <u>\$ 4,573,946,626</u> |

# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Net Assets (Continued)

|   | Business-Type Activities |                         |                         |                         |  |             |                         |                         |
|---|--------------------------|-------------------------|-------------------------|-------------------------|--|-------------|-------------------------|-------------------------|
|   | General Fund             |                         | State Revolving Fund    |                         | Strategic Water Quality Initiatives Fund |             | Total                   |                         |
|   | September 30             |                         | September 30            |                         | September 30                             |             | September 30            |                         |
|   | 2004                     | 2003                    | 2004                    | 2003                    | 2004                                     | 2003        | 2004                    | 2003                    |
| <b>Liabilities and Net Assets</b>           |                          |                         |                         |                         |  |             |                         |                         |
| <b>Current Liabilities</b>                  |                          |                         |                         |                         |  |             |                         |                         |
| Accounts payable and other liabilities      | \$ 492,584               | \$ 1,396,304            | \$ 5,635,535            | \$ 7,645,495            | \$ 3,500                                 | \$ -        | \$ 6,131,619            | \$ 9,041,799            |
| Due to other governmental units             | -                        | -                       | 514,001                 | 1,252,688               | 11,098                                   | -           | 525,099                 | 1,252,688               |
| Accrued interest payable                    | 32,287,389               | 27,526,041              | 42,632,472              | 35,546,702              | 14,703                                   | -           | 74,934,564              | 63,072,743              |
| Revenue notes payable (Note 4)              | 763,050,918              | 723,726,706             | -                       | -                       | -  | -           | 763,050,918             | 723,726,706             |
| Deferred revenue                            | -                        | -                       | 10,941,750              | 12,388,861              | -  | -           | 10,941,750              | 12,388,861              |
| Bonds payable (Note 9)                      | 52,221,290               | 54,852,382              | 45,300,000              | 33,740,000              | 1,483,318                                | -           | 99,004,608              | 88,592,382              |
| Total current liabilities                   | 848,052,181              | 807,501,433             | 105,023,758             | 90,573,746              | 1,512,619                                | -           | 954,588,558             | 898,075,179             |
| <b>Noncurrent Liabilities</b>               |                          |                         |                         |                         |  |             |                         |                         |
| Accrued interest payable                    | 65,088,187               | 74,043,620              | -                       | -                       | -  | -           | 65,088,187              | 74,043,620              |
| Bonds payable (Note 9)                      | 869,714,646              | 922,685,639             | 1,695,243,563           | 1,357,444,840           | -  | -           | 2,564,958,209           | 2,280,130,479           |
| Total noncurrent liabilities                | 934,802,833              | 996,729,259             | 1,695,243,563           | 1,357,444,840           | -  | -           | 2,630,046,396           | 2,354,174,099           |
| Total liabilities                           | 1,782,855,014            | 1,804,230,692           | 1,800,267,321           | 1,448,018,586           | 1,512,619                                | -           | 3,584,634,954           | 3,252,249,278           |
| <b>Net Assets (Deficit)</b>                 |                          |                         |                         |                         |  |             |                         |                         |
| Unrestricted                                | 10,267,351               | 8,866,912               | -                       | -                       | -  | -           | 10,267,351              | 8,866,912               |
| Restricted (Note 1)                         |                          |                         |                         |                         |  |             |                         |                         |
| Public school academies (Note 11)           | -                        | 537,000                 | -                       | -                       | -  | -           | -                       | 537,000                 |
| Water pollution and drinking water projects | -                        | -                       | 1,422,474,509           | 1,312,293,436           | -  | -           | 1,422,474,509           | 1,312,293,436           |
| Total net assets (deficit)                  | 10,267,351               | 9,403,912               | 1,422,474,509           | 1,312,293,436           | -  | -           | 1,432,741,860           | 1,321,697,348           |
| Total liabilities and net assets            | <u>\$ 1,793,122,365</u>  | <u>\$ 1,813,634,604</u> | <u>\$ 3,222,741,830</u> | <u>\$ 2,760,312,022</u> | <u>\$ 1,512,619</u>                      | <u>\$ -</u> | <u>\$ 5,017,376,814</u> | <u>\$ 4,573,946,626</u> |

# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Revenue, Expenses, and Changes in Net Assets

|   | Business-Type Activities |                     |                         |                         |  |             |                         |                         |
|---|--------------------------|---------------------|-------------------------|-------------------------|--|-------------|-------------------------|-------------------------|
|   | General Fund             |                     | State Revolving Fund    |                         | Strategic Water Quality Initiatives Fund |             | Total                   |                         |
|   | Year Ended September 30  |                     | Year Ended September 30 |                         | Year Ended September 30                  |             | Year Ended September 30 |                         |
|   | 2004                     | 2003                | 2004                    | 2003                    | 2004                                     | 2003        | 2004                    | 2003                    |
| <b>Operating Revenue</b>                  |                          |                     |                         |                         |  |             |                         |                         |
| Interest                                  | \$ 63,369,100            | \$ 64,441,273       | \$ 76,500,326           | \$ 68,465,675           | \$ 8,390                                 | \$ -        | \$ 139,877,816          | \$ 132,906,948          |
| Other (Note 10)                           | <u>1,433,604</u>         | <u>1,053,208</u>    | <u>2,659,662</u>        | <u>3,003,764</u>        | <u>-</u>                                 | <u>-</u>    | <u>4,093,266</u>        | <u>4,056,972</u>        |
| Total operating revenue                   | 64,802,704               | 65,494,481          | 79,159,988              | 71,469,439              | 8,390                                    | -           | 143,971,082             | 136,963,920             |
| <b>Operating Expenses</b>                 |                          |                     |                         |                         |  |             |                         |                         |
| Interest expense                          | 59,142,973               | 60,127,753          | 76,014,498              | 63,795,444              | 58,822                                   | -           | 135,216,293             | 123,923,197             |
| Amortization of deferred charges          | 3,397,552                | 2,934,196           | 1,061,918               | 967,731                 | 28,300                                   | -           | 4,487,770               | 3,901,927               |
| Salaries, wages, and other administrative | <u>861,740</u>           | <u>1,089,457</u>    | <u>2,637,175</u>        | <u>3,377,385</u>        | <u>14,598</u>                            | <u>-</u>    | <u>3,513,513</u>        | <u>4,466,842</u>        |
| Total operating expenses                  | <u>63,402,265</u>        | <u>64,151,406</u>   | <u>79,713,591</u>       | <u>68,140,560</u>       | <u>101,720</u>                           | <u>-</u>    | <u>143,217,576</u>      | <u>132,291,966</u>      |
| <b>Operating Income (Loss)</b>            | 1,400,439                | 1,343,075           | (553,603)               | 3,328,879               | (93,330)                                 | -           | 753,506                 | 4,671,954               |
| <b>Nonoperating Revenue (Expenses)</b>    |                          |                     |                         |                         |  |             |                         |                         |
| Operating subsidies (Note 1)              | -                        | -                   | 110,734,676             | 105,019,150             | 93,330                                   | -           | 110,828,006             | 105,019,150             |
| Contribution to MPEFA (Note 11)           | <u>(537,000)</u>         | <u>-</u>            | <u>-</u>                | <u>-</u>                | <u>-</u>                                 | <u>-</u>    | <u>(537,000)</u>        | <u>-</u>                |
| Total nonoperating revenue (expenses)     | <u>(537,000)</u>         | <u>-</u>            | <u>110,734,676</u>      | <u>105,019,150</u>      | <u>93,330</u>                            | <u>-</u>    | <u>110,291,006</u>      | <u>105,019,150</u>      |
| <b>Change in Net Assets</b>               | 863,439                  | 1,343,075           | 110,181,073             | 108,348,029             | -  | -           | 111,044,512             | 109,691,104             |
| <b>Net Assets - Beginning of year</b>     | <u>9,403,912</u>         | <u>8,060,837</u>    | <u>1,312,293,436</u>    | <u>1,203,945,407</u>    | <u>-</u>                                 | <u>-</u>    | <u>1,321,697,348</u>    | <u>1,212,006,244</u>    |
| <b>Net Assets - End of year</b>           | <u>\$ 10,267,351</u>     | <u>\$ 9,403,912</u> | <u>\$ 1,422,474,509</u> | <u>\$ 1,312,293,436</u> | <u>\$ -</u>                              | <u>\$ -</u> | <u>\$ 1,432,741,860</u> | <u>\$ 1,321,697,348</u> |

# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Cash Flows

|  | Business-Type Activities |                |                         |                |  |      |                         |                 |
|--|--------------------------|----------------|-------------------------|----------------|--|------|-------------------------|-----------------|
|  | General Fund             |                | State Revolving Fund    |                | Strategic Water Quality Initiatives Fund |      | Total                   |                 |
|  | Year Ended September 30  |                | Year Ended September 30 |                | Year Ended September 30                  |      | Year Ended September 30 |                 |
|  | 2004                     | 2003           | 2004                    | 2003           | 2004                                     | 2003 | 2004                    | 2003            |
| <b>Cash Flows From Operating Activities</b>                                |                          |                |                         |                |  |      |                         |                 |
| Cash payments to employees and suppliers for goods and services            | \$ (861,740)             | \$ (1,089,457) | \$ (2,614,344)          | \$ (3,562,842) | \$ -                                     | \$ - | \$ (3,476,084)          | \$ (4,652,299)  |
| Other operating revenue (expense)  | 1,538,218                | 932,582        | 2,044,917               | 2,700,184      | -  | -    | 3,583,135               | 3,632,766       |
| Net cash provided by (used in) operating activities                        | 676,478                  | (156,875)      | (569,427)               | (862,658)      | -  | -    | 107,051                 | (1,019,533)     |
| <b>Cash Flows From Noncapital Financing Activities</b>                     |                          |                |                         |                |  |      |                         |                 |
| Proceeds from sale of bonds and notes                                      | 913,401,577              | 1,211,313,193  | 384,142,557             | -              | 1,439,199                                | -    | 1,298,983,333           | 1,211,313,193   |
| Payment of bond issue costs  | (4,695,938)              | (5,248,662)    | (3,482,854)             | -              | (39,000)                                 | -    | (8,217,792)             | (5,248,662)     |
| Principal paid on bonds and notes  | (860,079,366)            | (825,271,987)  | (33,740,000)            | (36,505,000)   | -  | -    | (893,819,366)           | (861,776,987)   |
| Extinguishment of debt   | (57,570,000)             | (200,190,000)  | -                       | -              | -  | -    | (57,570,000)            | (200,190,000)   |
| Interest paid on bonds and notes   | (72,185,784)             | (76,237,428)   | (72,005,353)            | (59,144,156)   | -  | -    | (144,191,137)           | (135,381,584)   |
| Contribution to MPEFA  | (537,000)                | -              | -                       | -              | -  | -    | (537,000)               | -               |
| Operating subsidies  | -                        | -              | 104,398,823             | 103,802,611    | -  | -    | 104,398,823             | 103,802,611     |
| Proceeds on receivables from State of Michigan                             | -                        | -              | 1,640,000               | 1,605,000      | -  | -    | 1,640,000               | 1,605,000       |
| Net cash provided by (used in) noncapital financing activities             | (81,666,511)             | 104,365,116    | 380,953,173             | 9,758,455      | 1,400,199                                | -    | 300,686,861             | 114,123,571     |
| <b>Cash Flows From Investing Activities</b>                                |                          |                |                         |                |  |      |                         |                 |
| Loans made to local government units                                       | (908,206,196)            | (953,492,318)  | (267,391,262)           | (263,780,983)  | (688,314)                                | -    | (1,176,285,772)         | (1,217,273,301) |
| Principal received on loan repayments                                      | 922,148,742              | 788,098,074    | 87,898,117              | 66,109,771     | -  | -    | 1,010,046,859           | 854,207,845     |
| Interest received on loan repayments                                       | 54,237,525               | 53,811,468     | 36,834,156              | 31,600,309     | -  | -    | 91,071,681              | 85,411,777      |
| Net (purchases) proceeds from sale and maturities of investment securities | 11,319,637               | 6,160,723      | (279,038,298)           | 111,037,733    | (717,752)                                | -    | (268,436,413)           | 117,198,456     |
| Interest and dividends on investments                                      | 1,547,609                | 1,017,130      | 41,502,047              | 35,013,176     | 6,075                                    | -    | 43,055,731              | 36,030,306      |
| Net cash provided by (used in) investing activities                        | 81,047,317               | (104,404,923)  | (380,195,240)           | (20,019,994)   | (1,399,991)                              | -    | (300,547,914)           | (124,424,917)   |

# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Cash Flows (Continued)

|  | Business-Type Activities |                            |                            |                            |  |                    |                          |                              |
|--|--------------------------|----------------------------|----------------------------|----------------------------|--|--------------------|--------------------------|------------------------------|
|  | General Fund             |                            | State Revolving Fund       |                            | Strategic Water Quality Initiatives Fund |                    | Total                    |                              |
|  | Year Ended September 30  |                            | Year Ended September 30    |                            | Year Ended September 30                  |                    | Year Ended September 30  |                              |
|  | 2004                     | 2003                       | 2004                       | 2003                       | 2004                                     | 2003               | 2004                     | 2003                         |
| <b>Net Increase (Decrease) in Cash</b>   | \$ 57,284                | \$ (196,682)               | \$ 188,506                 | \$ (11,124,197)            | \$ 208                                   | \$ -               | \$ 245,998               | \$ (11,320,879)              |
| <b>Cash - Beginning of year</b>  | 17,326                   | 214,008                    | 40,211                     | 11,164,408                 | -  | -                  | 57,537                   | 11,378,416                   |
| <b>Cash - End of year</b>  | <u><b>\$ 74,610</b></u>  | <u><b>\$ 17,326</b></u>    | <u><b>\$ 228,717</b></u>   | <u><b>\$ 40,211</b></u>    | <u><b>\$ 208</b></u>                     | <u><b>\$ -</b></u> | <u><b>\$ 303,535</b></u> | <u><b>\$ 57,537</b></u>      |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:        |                          |                            |                            |                            |  |                    |                          |                              |
| Operating income (loss)  | \$ 1,400,439             | \$ 1,343,075               | \$ (553,603)               | \$ 3,328,879               | \$ (93,330)                              | \$ -               | \$ 753,506               | \$ 4,671,954                 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                          |                            |                            |                            |  |                    |                          |                              |
| Interest income reported as cash flows from investing activities   | (63,369,100)             | (64,441,273)               | (76,500,326)               | (68,465,675)               | (8,390)                                  | -                  | (139,877,816)            | (132,906,948)                |
| Interest expense reported as cash flows from noncapital financing activities                             | 59,142,973               | 60,127,753                 | 76,014,498                 | 63,795,444                 | 58,822                                   | -                  | 135,216,293              | 123,923,197                  |
| Amortization of deferred charges   | 3,397,552                | 2,934,196                  | 1,061,918                  | 967,731                    | 28,300                                   | -                  | 4,487,770                | 3,901,927                    |
| Changes in assets and liabilities:   |                          |                            |                            |                            |  |                    |                          |                              |
| (Increase) decrease in receivables   | 104,614                  | (120,626)                  | 435,933                    | (445,103)                  | -  | -                  | 540,547                  | (565,729)                    |
| Increase (decrease) in payables  | -                        | -                          | (1,027,847)                | (43,934)                   | 14,598                                   | -                  | (1,013,249)              | (43,934)                     |
| Net cash provided by (used in) operating activities  | <u><b>\$ 676,478</b></u> | <u><b>\$ (156,875)</b></u> | <u><b>\$ (569,427)</b></u> | <u><b>\$ (862,658)</b></u> | <u><b>\$ -</b></u>                       | <u><b>\$ -</b></u> | <u><b>\$ 107,051</b></u> | <u><b>\$ (1,019,533)</b></u> |

### Noncash Investing, Capital, and Financing Activities

During 2004 and 2003, there were no noncash investing, capital, and financing activities.

# Michigan Municipal Bond Authority of the State of Michigan

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## Notes to Financial Statements September 30, 2004 and 2003

### Note I - Significant Accounting Policies

The accounting policies of the Michigan Municipal Bond Authority of the State of Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### Reporting Entity

The Michigan Municipal Bond Authority (Authority), a component unit of the State of Michigan, was created pursuant to Act 227 of the Michigan Public Acts of 1985 (the "Shared Rating Credit Act") as amended. The Authority provides alternative sources of funding for government units within the state to undertake or continue public improvements by assisting those government units in financing and marketing, in an orderly fashion, municipal debt. The Authority is empowered to borrow money and to issue its bonds and notes to provide funds for various municipal purposes; such as public improvement, deficit reduction, and other purposes.

The Authority is governed by its own Board of Trustees, who are appointed by the Governor of the State of Michigan, and functions as a separate and distinct corporate body from the state. The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the state or to pledge the full faith and credit of the state. Certain nonprogrammatic administrative functions are provided by the state and paid by the Authority. In accordance with accounting principles generally accepted in the United States of America there are no component units required to be included in this financial report.

For accountability purposes, the accounts of the Authority are organized into three distinct funds, each of which is considered a separate accounting entity:

**General Fund** - The General Fund is the main operating fund for the Authority and accounts for all of the activities that are not accounted for in the State Revolving Fund or the Strategic Water Quality Initiatives Fund.

**State Revolving Fund** - The Michigan Municipal Bond Authority and the Michigan Department of Environmental Quality serve as co-administrators of the State Revolving Fund.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2004 and 2003**

## **Note I - Significant Accounting Policies (Continued)**

The State Revolving Fund consists of the Clean Water Program and the Drinking Water Program. The State Revolving Fund provides reduced interest loans for the construction of water pollution control and drinking water projects. From 1989 through 1992, the Authority's State Revolving Fund operated as a direct loan program. Since 1992, the Authority has sold State Revolving Fund Revenue Bonds. It is from these bond issues that local units of government receive reimbursements for approved project costs up to the total amount of their loans.

The State of Michigan received federal capitalization grants from the U.S. EPA from fiscal year 1989 through 2004. The capitalization grants in addition to released funds from the reserve accounts and the state match funds are deposited into the reserve accounts to provide coverage for the revenue bonds. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations of the Authority. The state or other sources provide \$1,000,000 in matching funds for every \$5,000,000 in federal contributions. To be eligible for a loan, the project must be included on the State's Project Priority List and Annual Intended Use Plan. Federal contributions and state match are funded and recognized as operating subsidies, which are non-operating revenues to the Authority, when amounts are earned. The Michigan Department of Environmental Quality (DEQ) receives up to 4.0 percent of the federal capitalization grant to reimburse a portion of salaries and administrative costs incurred for DEQ and the Authority. In addition, the state provides matching funds to cover a portion of salaries and administrative costs associated with the State Revolving Fund. Administrative fees received from the Department of Environmental Quality to cover these expenses are recognized as other operating revenue in the accompanying statements of revenue, expenses, and changes in net assets.

**Strategic Water Quality Initiatives Fund** - The Michigan Municipal Bond Authority and the Department of Environmental Quality serve as co-administrators of the Strategic Water Quality Initiatives Fund.

The Strategic Water Quality Initiatives Fund provides reduced interest loans for municipalities to improve sewage treatment facilities. These projects will be financed through Strategic Water Quality Initiative Fund Revenue Bonds.



# Michigan Municipal Bond Authority of the State of Michigan

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 1 - Significant Accounting Policies (Continued)

At the 2002 General Election, voters authorized up to \$1 billion of State General Obligation Bonds for the purpose of improving the quality of waters in the State by financing sewage treatment works, storm water, and non-point source projects.

Act 397 of 2002 provides for an allocation of the proceeds of the Great Lakes Water Quality Bonds with 90 percent going to the existing State Revolving Loan Fund and 10 percent for use in the new Strategic Water Quality Initiatives Program. No more than 10 percent of these Bonds may be issued in any year. The first \$100 million of Great Lakes Water Quality Bonds was issued by the State of Michigan to the Authority (registered owner) on December 18, 2003. Of this amount, \$90 million is available to be used as collateral for the issuance of bonds in the State Revolving Fund, however, the Authority currently does not have plans to make loans against this amount. The remaining \$10 million is available to be used as collateral in the Strategic Water Quality Initiatives Program and for any unfunded costs of the program. The Authority has used \$3.04 million of this bond as collateral for bonds separately issued by the Authority (Note 9). It is the intent of the program to provide low interest loans to municipalities for sewage treatment improvement projects. As of September 30, 2004, this program has recognized approximately \$93,000 due from the State of Michigan.

#### **Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

#### **Basis of Accounting**

The Authority follows the accounting rules promulgated by the Governmental Accounting Standards Board. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the enterprise fund model is followed, and the full accrual basis of accounting is used.

# Michigan Municipal Bond Authority of the State of Michigan

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## Notes to Financial Statements September 30, 2004 and 2003

### Note I - Significant Accounting Policies (Continued)

**Accounts Payable and Other Liabilities** - Federal income tax regulations for certain debt issues require the Authority to rebate to the federal government the interest earned on invested debt proceeds in excess of interest paid. The Authority has recorded an estimated liability, which is included in "accounts payable and other liabilities." Final amounts will be required to be forwarded to the federal government at a future date. The Authority has funds designated to pay the potential liability.

**Deferred Revenue** - The State Revolving Fund deferred revenue reflects current money received that is to be used to match federal capitalization grants which provide loans to local units of government.

**Restricted Net Assets** - The State Revolving Fund and Strategic Water Quality Initiatives Fund restricted net assets are for the construction of water pollution control, drinking water projects, and sewage system improvements.

**Revenues/Expenses** - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

**Reclassifications** - Certain amounts in the 2003 financial statements have been reclassified to conform to presentations in the 2004 financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 2 - Cash and Investments

The Authority's cash and investments are included on the statement of net assets under the following classifications:

| <u>2004</u> | <u>Cash</u>       | <u>Investments</u>      | <u>Total</u>            |
|-------------|-------------------|-------------------------|-------------------------|
| Cash        | \$ 303,535        | \$ -                    | \$ 303,535              |
| Investments | <u>-</u>          | <u>1,593,584,686</u>    | <u>1,593,584,686</u>    |
| Total       | <u>\$ 303,535</u> | <u>\$ 1,593,584,686</u> | <u>\$ 1,593,888,221</u> |

  

| <u>2003</u> | <u>Cash</u>      | <u>Investments</u>      | <u>Total</u>            |
|-------------|------------------|-------------------------|-------------------------|
| Cash        | \$ 57,537        | \$ -                    | \$ 57,537               |
| Investments | <u>-</u>         | <u>1,325,148,273</u>    | <u>1,325,148,273</u>    |
| Total       | <u>\$ 57,537</u> | <u>\$ 1,325,148,273</u> | <u>\$ 1,325,205,810</u> |

**Cash** - The majority of the Authority's cash is with the State Treasurer who manages the state's common cash pool, which is used by most State funds and Authorities. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. The common cash pool is described in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR).

**Investments** - Investments are stated at market value. The investment authorization for the Authority is found in their enabling statutes and/or their bond resolutions, where applicable.

The Authority's investments have been categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments that are held by the broker or dealer, or by its trust department or agent, in the Authority's name. Category 3, of which there are none, includes uninsured and unregistered investments held by the broker or dealer, or by its trust department or agent, but not in the Authority's name. Market value is determined by the Authority's trustees. A significant portion of the investments are payments for receivables from local municipalities used to pay bonds due October 1 of the subsequent fiscal year.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 2 - Cash and Investments (Continued)

The following is a summary of the investments of the Authority by category:

| <u>2004</u>                                | Category 1   | Category 2     | Not<br>Categorized* | Total            |
|--|--------------|----------------|---------------------|------------------|
| General Fund:                              |              |                |                     |                  |
| Bank investment pools                      | \$ -         | \$ -           | \$ 7,750,061        | \$ 7,750,061     |
| Guaranteed investment contracts            | -            | -              | 16,268,624          | 16,268,624       |
| Total General Fund                         | \$ -         | \$ -           | \$ 24,018,685       | \$ 24,018,685    |
| State Revolving Fund:                      |              |                |                     |                  |
| Bank investment pools                      | \$ -         | \$ -           | \$ 189,187,948      | \$ 189,187,948   |
| Guaranteed investment contracts            | -            | -              | 1,121,895,631       | 1,121,895,631    |
| Commercial paper                           | -            | 57,000,000     | -                   | 57,000,000       |
| U.S. Government Securities                 | -            | 200,764,670    | -                   | 200,764,670      |
| Total State Revolving Fund                 | \$ -         | \$ 257,764,670 | \$ 1,311,083,579    | \$ 1,568,848,249 |
| Strategic Water Quality Initiatives Fund:  |              |                |                     |                  |
| Bank investment pools                      | \$ -         | \$ -           | \$ 317,752          | \$ 317,752       |
| Commercial paper                           | -            | 400,000        | -                   | 400,000          |
| Total State Water Quality Initiatives Fund | \$ -         | \$ 400,000     | \$ 317,752          | \$ 717,752       |
| Total                                      |              |                |                     | \$ 1,593,584,686 |
| <u>2003</u>                                |              |                |                     |                  |
| General Fund:                              |              |                |                     |                  |
| Bank investment pools                      | \$ -         | \$ -           | \$ 5,111,035        | \$ 5,111,035     |
| Guaranteed investment contracts            | -            | -              | 26,795,066          | 26,795,066       |
| Repurchase agreements                      | 3,432,221    | -              | -                   | 3,432,221        |
| Total General Fund                         | \$ 3,432,221 | \$ -           | \$ 31,906,101       | \$ 35,338,322    |
| State Revolving Fund:                      |              |                |                     |                  |
| Bank investment pools                      | \$ -         | \$ -           | \$ 324,230,286      | \$ 324,230,286   |
| Guaranteed investment contracts            | -            | -              | 880,812,865         | 880,812,865      |
| U.S. Government Securities                 | -            | 84,766,800     | -                   | 84,766,800       |
| Total State Revolving Fund                 | \$ -         | \$ 84,766,800  | \$ 1,205,043,151    | \$ 1,289,809,951 |
| Total                                      |              |                |                     | \$ 1,325,148,273 |

\* The bank investment pools and guaranteed investment contracts are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. The Authority's guaranteed investment contract investments are collateralized by government obligations having a greater market value than the invested funds.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 3 - Deferred Charges

Deferred charges represent bond and note issuance costs as of September 30, 2004 and 2003. These costs are being amortized using the interest method over the life of the related notes and bonds. Accumulated amortization was \$21,235,323 and \$19,011,628 at September 30, 2004 and 2003, respectively.

### Note 4 - Revenue Notes Payable and Receivable

Pooled state aid anticipation notes payable consisted of the following at September 30, 2004 and 2003:

| Series | Interest<br>Rate (%) | Yield (%) | Maturity Date   | Beginning as of<br>October 1,<br>2003 | Additions             | Deletions               | Ending as of<br>September 30,<br>2004 |
|--------|----------------------|-----------|-----------------|---------------------------------------|-----------------------|-------------------------|---------------------------------------|
| 2004A  | 1.75                 | 1.02      | August 29, 2004 | \$ -                                  | \$ 78,700,000         | \$ (78,700,000)         | \$ -                                  |
| 2004B1 | 3.00                 | 1.55      | August 19, 2005 | -                                     | 298,295,477           | (167,912)               | 298,127,565                           |
| 2004B2 | 3.00                 | 1.57      | August 20, 2005 | -                                     | 465,181,137           | (257,784)               | 464,923,353                           |
| 2003B1 | 2.00                 | 1.02      | August 20, 2004 | 298,110,874                           | -                     | (298,110,874)           | -                                     |
| 2003B2 | 2.00                 | 1.03      | August 20, 2004 | 425,615,832                           | -                     | (425,615,832)           | -                                     |
| Total  |                      |           |                 | <u>\$ 723,726,706</u>                 | <u>\$ 842,176,614</u> | <u>\$ (802,852,402)</u> | <u>\$ 763,050,918</u>                 |

| Series | Interest<br>Rate (%) | Yield (%) | Maturity Date   | Beginning as of<br>October 1,<br>2002 | Additions             | Deletions               | Ending as of<br>September 30,<br>2003 |
|--------|----------------------|-----------|-----------------|---------------------------------------|-----------------------|-------------------------|---------------------------------------|
| 2003A  | 1.50                 | 1.05      | August 27, 2003 | \$ -                                  | \$ 17,060,000         | \$ (17,060,000)         | \$ -                                  |
| 2003B1 | 2.00                 | 1.02      | August 20, 2004 | -                                     | 298,397,604           | (286,730)               | 298,110,874                           |
| 2003B2 | 2.00                 | 1.03      | August 20, 2004 | -                                     | 426,025,937           | (410,105)               | 425,615,832                           |
| 2002B  | 3.00                 | 1.60      | July 1, 2003    | 19,509,603                            | -                     | (19,509,603)            | -                                     |
| 2002C1 | 2.25                 | 1.40      | August 21, 2003 | 324,138,245                           | -                     | (324,138,245)           | -                                     |
| 2002C2 | 2.25                 | 1.45      | August 21, 2003 | 360,270,443                           | -                     | (360,270,443)           | -                                     |
| Total  |                      |           |                 | <u>\$ 703,918,291</u>                 | <u>\$ 741,483,541</u> | <u>\$ (721,675,126)</u> | <u>\$ 723,726,706</u>                 |

Pooled state aid anticipation notes receivable were \$762,067,185 and \$723,135,722 at September 30, 2004 and 2003, respectively. The notes receivable bear interest at rates ranging from 1.02 to 1.57 percent during 2004, and 1.50 to 2.00 percent during 2003. In addition, the yields on the notes receivable range from 1.64 to 1.99 percent during 2004, and 1.02 to 1.05 percent during 2003.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 5 - Bonds Receivable

Bonds receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9. The annual requirements for governmental units to repay bonds outstanding as of September 30, 2004, including both principal and interest, are as follows:

|            | Principal             | Interest              | Total                   |
|------------|-----------------------|-----------------------|-------------------------|
| 2005       | \$ 53,056,873         | \$ 44,513,482         | \$ 97,570,355           |
| 2006       | 83,935,038            | 53,179,628            | 137,114,666             |
| 2007       | 82,510,593            | 47,671,416            | 130,182,009             |
| 2008       | 80,743,273            | 45,025,350            | 125,768,623             |
| 2009       | 56,520,777            | 32,425,182            | 88,945,959              |
| 2010-2014  | 246,042,976           | 98,358,204            | 344,401,180             |
| 2015-2019  | 107,000,443           | 50,075,456            | 157,075,899             |
| 2020-2024  | 49,027,000            | 18,689,207            | 67,716,207              |
| 2025-2029  | 57,658,616            | 17,276,914            | 74,935,530              |
| Thereafter | 3,434,557             | 504,750               | 3,939,307               |
| Total      | <u>\$ 819,930,146</u> | <u>\$ 407,719,589</u> | <u>\$ 1,227,649,735</u> |

The interest is recorded as revenue when earned.

### Note 6 - State Revolving Fund Loans Receivable

The State Revolving Fund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. Loans are made from the State Revolving Fund. These loans are primarily secured by limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

|                                   | Total<br>Commitments | Receivable |            |
|-----------------------------------|----------------------|------------|------------|
|                                   |                      | 2004       | 2003       |
| Clean Water Program:              |                      |            |            |
| Acacia Park CSO Drainage District | \$ 1,635,000         | \$ 840,000 | \$ 915,000 |
| City of Adrian                    | 8,920,000            | 8,570,000  | 5,754,062  |
| City of Bay                       | 42,435,000           | 40,212,748 | 38,898,977 |
| County of Bay                     | 9,240,000            | 4,720,000  | 5,190,000  |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - State Revolving Fund Loans Receivable (Continued)

|  | Total<br>Commitments | Receivable  |             |
|--|----------------------|-------------|-------------|
|  |                      | 2004        | 2003        |
| Clean Water Program (Continued):         |                      |             |             |
| City of Belding                          | \$ 2,245,000         | \$ 685,743  | \$ 800,743  |
| Village of Beulah                        | 1,340,000            | 1,024,127   | 1,079,127   |
| Birmingham CSO Drainage District         | 4,345,000            | 2,810,000   | 3,015,000   |
| Bloomfield Hills CSO Drainage District   | 250,000              | 120,000     | 135,000     |
| Bloomfield Village CSO Drainage District | 3,135,000            | 1,960,000   | 2,105,000   |
| City of Boyne                            | 8,395,000            | -           | -           |
| County of Calhoun                        | 5,220,000            | 1,845,000   | 2,110,000   |
| Charter Township of Canton               | 2,295,000            | 905,000     | 1,020,000   |
| County of Cass                           | 5,250,000            | 1,645,000   | 1,915,000   |
| Village of Centreville                   | 1,995,000            | 1,410,000   | 1,495,000   |
| Charter Township of Chesterfield         | 2,075,000            | 1,325,246   | 1,418,160   |
| Charter Township of Clinton              | 1,405,000            | 568,256     | -           |
| County of Clinton                        | 430,000              | 135,000     | 160,000     |
| City of Dearborn                         | 74,450,000           | 8,520,000   | 8,925,844   |
| City of Detroit                          | 592,410,000          | 416,728,859 | 341,951,924 |
| City of East Lansing                     | 28,220,000           | 14,211,126  | 12,995,000  |
| City of Eaton Rapids                     | 9,545,000            | -           | -           |
| City of Escanaba                         | 2,470,000            | 1,430,000   | 1,545,000   |
| City of Farmington                       | 13,090,000           | 4,550,000   | 5,240,000   |
| City of Frankenmuth                      | 6,645,000            | 5,250,000   | 5,540,000   |
| City of Garden City                      | 2,435,000            | 1,294,936   | 1,409,936   |
| Township of Genoa                        | 3,065,000            | 1,085,000   | 1,240,000   |
| Genoa-Oceola Sanitary Sewer              |                      |             |             |
| Drain No. 1 Drainage District            | 7,505,000            | 2,905,000   | 3,290,000   |
| George W. Kuhn Drainage District         | 103,250,000          | 92,839,961  | 66,027,167  |
| City of Grand Ledge                      | 1,615,000            | 760,000     | 835,000     |
| City of Grand Rapids                     | 68,385,000           | 33,898,505  | 37,145,393  |
| County of Grand Traverse                 | 2,255,000            | 710,000     | 835,000     |
| Township of Grosse Isle                  | 40,000,000           | 21,638,193  | 6,833,284   |
| City of Grosse Pointe Farms              | 7,625,000            | 6,705,000   | 7,020,000   |
| City of Grosse Pointe Park               | 23,280,000           | 16,460,000  | 17,540,000  |
| Township of Hamburg                      | 1,590,000            | 605,000     | 690,000     |
| Harbor Springs Area Sanitary Drain       | 5,875,000            | 5,434,770   | 5,051,924   |
| Hartland Township Sanitary Drain         |                      |             |             |
| No. 2 Drainage District                  | 8,765,000            | 5,245,441   | 5,650,441   |
| City of Hillsdale                        | 2,785,000            | 1,360,000   | 1,495,000   |
| County of Hillsdale                      | 2,305,000            | 1,145,000   | 1,255,000   |
| County of Ionia                          | 6,475,000            | 2,380,000   | 2,750,000   |
| County of Iosco                          | 935,000              | 375,000     | 420,000     |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - State Revolving Fund Loans Receivable (Continued)

|   | Total<br>Commitments | Receivable   |              |
|---|----------------------|--------------|--------------|
|   |                      | 2004         | 2003         |
| Clean Water Program (Continued):                              |                      |              |              |
| County of Jackson   | \$ 2,700,000         | \$ 1,475,000 | \$ 1,605,000 |
| Village of Kent City  | 1,260,000            | 940,000      | 995,000      |
| City of Lansing   | 126,365,000          | 84,088,075   | 70,726,942   |
| Lake St. Clair  | 43,465,000           | 39,944,111   | 40,403,171   |
| County of Lenawee   | 5,035,000            | 2,759,514    | 2,661,545    |
| Township of Leoni   | 1,710,000            | 940,000      | 1,025,000    |
| County of Macomb  | 1,170,000            | 470,000      | 530,000      |
| Village of Manchester   | 955,000              | 374,282      | 424,282      |
| City of Manistee  | 5,525,000            | 4,270,000    | 4,510,000    |
| City of Marine City   | 10,415,000           | 4,630,000    | 5,105,000    |
| City of Marquette   | 3,470,000            | 391,139      | -            |
| City of Marshall  | 1,800,000            | 680,000      | 815,000      |
| City of Marysville  | 6,915,000            | 3,915,000    | 4,215,000    |
| City of Menominee   | 1,520,000            | 760,000      | 835,000      |
| City of Midland   | 5,130,000            | 4,559,789    | 4,405,942    |
| Milk River Drain Drainage District                            | 25,660,000           | 11,090,095   | 12,365,095   |
| County of Monroe  | 13,510,000           | 8,590,000    | 9,230,000    |
| City of Mount Clemens   | 18,110,000           | 14,569,393   | 15,338,958   |
| County of Oakland   | 9,350,000            | 6,970,000    | 7,390,000    |
| Village of Ontonagon  | 495,000              | 340,000      | 365,000      |
| Board of County Road Commissioners<br>of the County of Ottawa | 2,075,000            | 685,000      | 795,000      |
| County of Ottawa  | 4,785,000            | 3,754,446    | 3,964,446    |
| Charter Township of Plainfield                                | 1,485,000            | 535,749      | 615,749      |
| City of Port Huron  | 51,850,000           | 40,560,900   | 34,593,589   |
| Charter Township of Redford                                   | 2,470,000            | 1,177,897    | 1,297,897    |
| City of Riverview   | 10,860,000           | 6,468,539    | 6,993,539    |
| Rollin-Woodstock Sanitary Drain                               | 5,080,000            | 4,655,000    | 4,870,000    |
| County of Roscommon   | 3,500,000            | 1,845,000    | 2,015,000    |
| City of Royal Oak   | 15,800,000           | 11,437,387   | 12,022,387   |
| City of Saginaw   | 81,765,000           | 44,316,006   | 48,048,159   |
| County of Saginaw   | 33,305,000           | 16,416,396   | 18,051,396   |
| City of St. Clair   | 5,065,000            | 4,753,287    | 3,977,839    |
| County of St. Clair   | 5,820,000            | 3,325,819    | 1,700,000    |
| City of St. Joseph  | 4,205,000            | 2,933,776    | 674,580      |
| City of Sault Ste. Marie                                      | 11,715,000           | 8,889,883    | 7,512,938    |
| South Huron Valley Utility Authority                          | 48,620,000           | 29,854,923   | 29,292,133   |



# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - State Revolving Fund Loans Receivable (Continued)

|                                  | Total<br>Commitments | Receivable    |               |
|----------------------------------|----------------------|---------------|---------------|
|                                  |                      | 2004          | 2003          |
| Clean Water Program (Continued): |                      |               |               |
| City of South Lyon               | \$ 17,250,000        | \$ 11,062,139 | \$ 3,506,641  |
| City of Southfield               | 38,380,000           | 31,813,789    | 33,421,459    |
| Village of Springport            | 735,000              | 575,274       | 603,412       |
| Village of Stockbridge           | 2,770,000            | 1,756,230     | 330,639       |
| City of Sturgis                  | 5,745,000            | 4,020,000     | 4,285,000     |
| Village of Three Oaks            | 2,155,000            | 1,985,000     | 2,064,964     |
| City of Trenton                  | 46,080,000           | 34,363,036    | 34,016,721    |
| County of Van Buren              | 1,900,000            | 1,500,000     | 1,585,000     |
| City of Warren                   | 12,435,000           | 3,217,803     | -             |
| County of Washtenaw              | 9,855,000            | 1,480,000     | 2,195,000     |
| City of Wayne                    | 1,310,000            | 550,000       | 585,000       |
| Charter County of Wayne          | 258,350,000          | 190,595,497   | 202,008,750   |
| Township of White Lake           | 4,130,000            | 3,867,560     | 1,713,171     |
| Subtotal                         | 2,089,640,000        | 1,374,460,645 | 1,247,383,326 |
| Drinking Water Program:          |                      |               |               |
| City of Adrian                   | 5,665,000            | 5,445,000     | 3,955,211     |
| City of Ann Arbor                | 805,000              | -             | -             |
| Village of Armada                | 3,740,000            | -             | -             |
| County of Barry                  | 650,000              | 459,038       | 50,631        |
| City of Belding                  | 685,000              | 660,000       | 174,724       |
| Village of Beverly Hills         | 3,690,000            | 353,475       | -             |
| Village of Blissfield            | 7,235,000            | 6,105,707     | 6,406,011     |
| City of Boyne City               | 1,785,000            | 1,678,955     | 273,727       |
| Village of Breckenridge          | 330,000              | 215,000       | 230,000       |
| City of Brighton                 | 1,520,000            | 1,336,170     | -             |
| Village of Caro                  | 1,035,000            | 685,640       | 723,050       |
| Village of Carrolton             | 2,165,000            | 1,550,000     | 1,640,000     |
| County of Charlevoix             | 595,000              | 534,564       | 100,565       |
| Village of Chelsea               | 9,200,000            | 8,220,000     | 8,567,136     |
| Village of Colon                 | 2,085,000            | 1,673,655     | 1,758,655     |
| City of Cooperville              | 750,000              | 590,000       | 620,000       |
| City of Davison                  | 6,000,000            | 4,189,415     | 1,203,503     |
| Village of Deerfield             | 925,000              | 812,120       | 263,522       |
| City of East Jordan              | 850,000              | 659,218       | 1,829,218     |
| City of Eaton Rapids             | 1,745,000            | 1,229,806     | 1,294,806     |
| City of Escanaba                 | 2,750,000            | 2,640,000     | 2,246,354     |
| City of Fenton                   | 11,080,000           | 10,333,759    | 6,114,541     |
| Township of Filer                | 1,490,000            | 1,099,959     | 375,632       |
| City of Flint                    | 43,915,000           | 29,526,712    | 22,303,575    |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - State Revolving Fund Loans Receivable (Continued)

|   | Total<br>Commitments | Receivable   |              |
|---|----------------------|--------------|--------------|
|   |                      | 2004         | 2003         |
| Drinking Water Program (Continued):                           |                      |              |              |
| City of Flushing  | \$ 2,045,000         | \$ 1,475,000 | \$ 1,560,000 |
| City of Frankfort   | 1,775,000            | 1,410,000    | 1,490,000    |
| Village of Grand Beach  | 720,000              | 569,334      | 599,334      |
| City of Grand Blanc   | 4,400,000            | 4,008,509    | 558,788      |
| City of Highland Park   | 6,000,000            | 5,384,898    | 5,539,898    |
| Village of Holly  | 1,435,000            | 1,145,000    | 1,205,000    |
| City of Hudson  | 1,770,000            | 1,591,665    | 1,661,665    |
| City of Hudsonville   | 500,000              | 395,000      | 415,000      |
| County of Huron   | 835,000              | 642,123      | -            |
| Charter Township of Independence                              | 18,000,000           | -            | -            |
| City of Ironwood  | 900,000              | 715,000      | 755,000      |
| County of Jackson   | 3,545,000            | 3,245,000    | 1,891,779    |
| County of Jackson Water Supply                                | 1,110,000            | 1,020,000    | 1,032,380    |
| Village of Lake Linden  | 1,200,000            | 1,115,000    | 1,145,000    |
| Charter Township of Lansing                                   | 1,205,000            | 854,937      | 904,937      |
| County of Lapeer  | 1,155,000            | 791,507      | 836,507      |
| Village of Manchester   | 620,000              | 495,000      | 520,000      |
| City of Marine City   | 1,155,000            | 915,000      | 965,000      |
| City of Marion  | 1,800,000            | 1,738,383    | 1,359,062    |
| City of Melvindale  | 1,100,000            | 875,000      | 920,000      |
| Village of Milford  | 3,665,000            | 3,243,885    | 3,330,552    |
| Township of Monitor   | 455,000              | 266,349      | -            |
| County of Monroe  | 4,250,000            | 4,042,144    | 3,300,367    |
| City of Mount Clemens   | 11,890,000           | 9,867,500    | 10,362,000   |
| City of Mt. Morris  | 420,000              | 332,844      | 352,844      |
| City of Muskegon  | 13,900,000           | 2,830,198    | -            |
| Village of Muir   | 2,190,000            | 1,897,711    | 1,907,736    |
| Village of Nashville  | 965,000              | 885,000      | 925,000      |
| City of North Branch  | 1,320,000            | 1,094,120    | 1,127,656    |
| Village of Ontonagon  | 7,370,000            | 7,193,862    | -            |
| Board of County Road Commissioners<br>of the County of Ottawa | 2,260,000            | 1,812,087    | 1,907,087    |
| Village of Otisville  | 375,000              | 232,463      | 244,676      |
| Village of Oxford   | 1,895,000            | 1,500,000    | 1,580,000    |
| City of Plainwell   | 1,570,000            | 1,170,000    | 1,235,000    |
| City of Port Huron  | 19,395,000           | 14,280,673   | 11,751,872   |
| Village of Port Sanilac                                       | 2,135,000            | 1,922,548    | 360,001      |
| City of Portland  | 1,450,000            | 981,878      | -            |
| City of Rockford  | 2,440,000            | 1,935,000    | 2,040,000    |
| County of St. Clair   | 16,325,000           | 13,270,600   | 13,965,600   |
| City of Saline  | 6,840,000            | 3,609,873    | -            |
| County of Sanilac   | 3,105,000            | 1,885,199    | 1,725,000    |
| City of Sault Ste. Marie                                      | 9,090,000            | 7,600,124    | 6,135,224    |
| City of Shelby  | 1,365,000            | 1,255,000    | 1,310,000    |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - State Revolving Fund Loans Receivable (Continued)

|                                       | Total<br>Commitments | Receivable       |                  |
|---------------------------------------|----------------------|------------------|------------------|
|                                       |                      | 2004             | 2003             |
| Drinking Water Program (Continued):   |                      |                  |                  |
| Village of Sparta                     | \$ 4,330,000         | \$ 3,805,000     | \$ 3,985,000     |
| Township of Summit                    | 4,630,000            | 3,525,000        | 3,715,000        |
| Village of Sunfield                   | 880,000              | 776,707          | 811,707          |
| County of Van Buren                   | 830,000              | 632,340          | 667,340          |
| County of Washtenaw                   | 2,795,000            | 2,017,279        | 2,127,279        |
| City of White Cloud                   | 835,000              | 729,000          | 748,500          |
| City of Wixom                         | 17,365,000           | 13,582,973       | 14,175,105       |
| City of Ypsilanti                     | 12,900,000           | 8,954,344        | 2,234,772        |
| Ypsilanti Community Utility Authority | 9,375,000            | 6,220,860        | 3,805,755        |
| Subtotal                              | 315,335,000          | 231,737,110      | 179,321,284      |
| Total                                 | \$ 2,404,975,000     | \$ 1,606,197,755 | \$ 1,426,704,610 |

Scheduled repayments of \$91,456,983 are expected to be collected during fiscal year 2005.

### Note 7 - Public School Academies Loans Receivable

Loans receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9. The annual requirements for governmental units to repay loans outstanding as of September 30, 2004, including both principal and interest are as follows:

|           | Principal     | Interest      | Total          |
|-----------|---------------|---------------|----------------|
| 2005      | \$ 500,000    | \$ 3,298,475  | \$ 3,798,475   |
| 2006      | 500,000       | 3,258,225     | 3,758,225      |
| 2007      | 600,000       | 3,217,350     | 3,817,350      |
| 2008      | 600,000       | 3,172,850     | 3,772,850      |
| 2009      | 600,000       | 3,128,350     | 3,728,350      |
| 2010-2014 | 4,000,000     | 14,836,287    | 18,836,287     |
| 2015-2019 | 5,600,000     | 13,008,525    | 18,608,525     |
| 2020-2024 | 8,100,000     | 10,529,163    | 18,629,163     |
| 2025-2029 | 12,000,000    | 6,399,750     | 18,399,750     |
| 2030-2033 | 9,800,000     | 1,205,375     | 11,005,375     |
| Total     | \$ 42,300,000 | \$ 62,054,350 | \$ 104,354,350 |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 8 - Strategic Water Quality Initiatives Loans Receivable

The Strategic Water Quality Initiatives Fund has made commitments to municipalities to loan funds for purposes such as septic system upgrades, replacements, and other projects which are generally not eligible to be financed through the State Revolving Loan Fund Program. Loans are made from the Strategic Water Quality Initiatives Fund. These loans are primarily secured by limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

|                             | Total               | Receivable        |
|-----------------------------|---------------------|-------------------|
|                             | Commitments         | 2004              |
| City of Ann Arbor           | \$ 875,000          | \$ 658,728        |
| Charter Township of Clinton | 270,000             | 29,586            |
| Total                       | <u>\$ 1,145,000</u> | <u>\$ 688,314</u> |

Scheduled repayments of \$45,000 are expected to be collected during fiscal year 2005.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable

#### General Fund

Bonds payable of the General Fund consisted of the following at September 30:

| Series   | Date of Issue     | Original Issue | Amount Outstanding as of<br>September 30 |            |
|--|-------------------|----------------|--|------------|
|  |                   |                | 2004                                     | 2003       |
| Local Government Loan Program Revenue Bonds, Series 1986A, issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements and for other municipal purposes on more favorable terms than might otherwise be obtained by such governmental units. The bonds bear interest at rates ranging from 6.750% to 8.625% and are due at various dates between 2005 and 2013. Amounts outstanding were as follows: |                   |                |  |            |
| 1986A, Group 2   | October 30, 1986  | \$ 23,900,000  | \$ 60,000                                | \$ 240,000 |
| 1986A, Group 4   | February 19, 1987 | 6,300,000      | 55,000                                   | 55,000     |
| 1986A, Group 7   | June 11, 1987     | 14,900,001     | 415,000                                  | 450,000    |
| 1986A, Group 8   | August 6, 1987    | 36,900,000     | 20,000                                   | 30,000     |
| 1986A, Group 19  | March 23, 1989    | 18,275,000     | 450,000                                  | 1,070,000  |
| 1986A, Group 21  | June 1, 1989      | 10,690,000     | 30,000                                   | 275,000    |
| 1986A, Group 23  | August 10, 1989   | 5,400,000      | -  | 490,000    |
| Subtotal   |                   |                | 1,030,000                                | 2,610,000  |

Equipment and Real Property Financing Program Bonds, Series G issued August 3, 1992, for \$16,920,000, which refunded all other outstanding Equipment and Real Property Financing Program Bonds, which are not included in the outstanding balance. These bonds were paid in full at September 30, 2004

|          |                |            |   |         |
|----------|----------------|------------|---|---------|
| Subtotal | August 3, 1992 | 16,920,000 | - | 230,000 |
|----------|----------------|------------|---|---------|

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

| Series   | Date of Issue      | Original Issue | Amount Outstanding as of<br>September 30 |            |
|--|--------------------|----------------|--|------------|
|  |                    |                | 2004                                     | 2003       |
| Local Government Loan Program Revenue Bonds (Resolution 1989) were issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements, deficit financing, and other municipal purposes, secured by the revenue pledged, including the Municipal Obligations issued to the Authority and the funds held in reserve accounts. The bonds bear interest at rates ranging from 2.00% to 8.00% and are due at various dates between 2005 and 2034. Amounts outstanding were as follows: |                    |                |  |            |
| 1990D  | June 28, 1990      | \$ 4,685,000   | \$ 225,000                               | \$ 305,000 |
| 1991A  | February 28, 1991  | 106,234,562    | 45,750,699                               | 52,235,991 |
| 1991B  | April 11, 1991     | 4,120,000      | 90,000                                   | 465,000    |
| 1991C  | June 27, 1991      | 56,140,074     | 18,175,326                               | 20,199,512 |
| 1991D  | August 29, 1991    | 141,183,756    | 7,754,355                                | 12,374,759 |
| 1991F  | December 19, 1991  | 10,070,000     | 165,000                                  | 180,000    |
| 1992A  | March 26, 1992     | 57,640,000     | 430,000                                  | 39,770,000 |
| 1992B  | May 14, 1992       | 7,075,000      | 290,000                                  | 3,360,000  |
| 1992C  | June 24, 1992      | 3,460,000      | -  | 650,000    |
| 1992D  | September 3, 1992  | 9,635,000      | 165,000                                  | 1,390,000  |
| 1993A  | April 6, 1993      | 6,705,000      | 1,095,000                                | 1,710,000  |
| 1993B  | July 13, 1993      | 30,925,000     | 7,420,000                                | 11,640,000 |
| 1993C  | June 17, 1993      | 2,275,000      | 715,000                                  | 820,000    |
| 1993D  | August 26, 1993    | 16,385,000     | 1,165,000                                | 4,710,000  |
| 1993E  | December 16, 1993  | 5,880,000      | 645,000                                  | 2,165,000  |
| 1994A  | April 14, 1994     | 105,935,000    | 72,445,000                               | 78,930,000 |
| 1994B  | March 30, 1994     | 13,080,000     | 2,885,000                                | 9,165,000  |
| 1994C  | May 24, 1994       | 50,610,000     | 11,125,000                               | 13,690,000 |
| 1994D  | May 19, 1994       | 4,975,000      | 330,000                                  | 3,400,000  |
| 1994E  | August 25, 1994    | 2,455,000      | 30,000                                   | 1,490,000  |
| 1994F  | October 13, 1994   | 6,935,000      | 810,000                                  | 1,620,000  |
| 1994G  | December 21, 1994  | 72,149,737     | 22,364,737                               | 31,999,737 |
| 1995A  | June 22, 1995      | 15,205,000     | 2,700,000                                | 5,665,000  |
| 1995B  | December 14, 1995  | 20,800,000     | 16,090,000                               | 16,905,000 |
| 1996A  | September 20, 1996 | 5,755,000      | 1,605,000                                | 2,285,000  |
| 1997A  | April 29, 1997     | 7,705,000      | 4,835,000                                | 5,320,000  |
| 1997B  | August 14, 1997    | 17,375,000     | 12,705,000                               | 13,420,000 |
| 1997C  | October 30, 1997   | 16,335,000     | 8,470,000                                | 9,585,000  |
| 1997D  | December 22, 1997  | 9,300,000      | 5,830,000                                | 6,525,000  |
| 1998A  | June 16, 1998      | 16,100,000     | 7,915,000                                | 8,515,000  |
| 1999A  | February 9, 1999   | 10,910,000     | 6,160,000                                | 7,290,000  |
| 1999B  | April 28, 1999     | 38,605,000     | 23,660,000                               | 26,755,000 |
| 1999C  | June 24, 1999      | 16,685,000     | 12,815,000                               | 13,825,000 |
| 1999D  | November 17, 1999  | 8,255,000      | 6,335,000                                | 6,820,000  |
| 2000A  | May 17, 2000       | 10,815,000     | 8,360,000                                | 9,040,000  |
| 2000B  | November 28, 2000  | 5,905,000      | 5,500,000                                | 5,650,000  |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

| Series   | Date of Issue      | Original Issue | Amount Outstanding as of<br>September 30 |              |
|----------|--------------------|----------------|--|--------------|
|          |                    |                | 2004                                     | 2003         |
| 2001A    | March 29, 2001     | \$ 9,055,000   | \$ 8,860,000                             | \$ 9,025,000 |
| 2001B    | July 12, 2001      | 10,065,000     | 8,030,000                                | 8,770,000    |
| 2002 A   | July 1, 2002       | 30,060,000     | 26,705,000                               | 28,895,000   |
| 2002 B   | November 1, 2002   | 16,790,000     | 16,025,000                               | 16,675,000   |
| 2003 A   | April 7, 2003      | 3,980,000      | 3,730,000                                | 3,980,000    |
| 2003 B   | September 30, 2003 | 19,665,000     | 19,510,000                               | 19,665,000   |
| 2003 C   | September 30, 2003 | 160,000,000    | 160,000,000                              | 160,000,000  |
| 2004 A   | February 18, 2004  | 41,155,000     | 41,155,000                               | -            |
| 2004 B   | May 13, 2004       | 26,830,000     | 26,830,000                               | -            |
| Subtotal |                    |                | 627,900,117                              | 676,879,999  |

School Loan Revenue Bonds, original Series 1998, refunding Series 2003 A and B, issued to provide funds to local school districts and intermediate school districts in the State of Michigan. Funds are to be used by the schools for the purposes permitted by the state school aid act of 1979. The bonds have a pledge of revenue from state sources subject to annual state appropriation. The bonds bear interest rates varying from 2.71% to 5.25% and are due semi-annually on June 1 and December 1 with final maturity on December 1, 2013:

|          |                |             |                   |                   |
|----------|----------------|-------------|-------------------|-------------------|
| 2003 A   | March 25, 2003 | 197,295,000 | 197,295,000       | 197,295,000       |
| 2003 B   | March 25, 2003 | 30,300,000  | <u>30,300,000</u> | <u>30,300,000</u> |
| Subtotal |                |             | 227,595,000       | 227,595,000       |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

| Series   | Date of Issue  | Original Issue | Amount Outstanding as of |                |
|--|----------------|----------------|--------------------------|----------------|
|  |                |                | September 30             |                |
|  |                |                | 2004                     | 2003           |
| Long-term Public School Academy Program provides financing to public school academies that meet eligibility requirements. The Authority's bonds actual interest rates are 7.25% to 10.5% and are due annually on October 1 with final maturity on October 1, 2031: |                |                |                          |                |
| Detroit Academy of Arts & Science Series 2001A   | May 16, 2001   | \$ 30,200,000  | \$ 30,200,000            | \$ 30,200,000  |
| Detroit Academy of Arts & Science Series 2001B taxable   | May 16, 2001   | 700,000        | 200,000                  | 500,000        |
| Detroit YMCA Service Learning Academy Series 2001  | May 16, 2001   | 12,100,000     | 11,900,000               | 12,000,000     |
| University Preparatory Academy 2001  | April 30, 2001 | 3,580,000      | -                        | 3,580,000      |
| Subtotal   |                |                | 42,300,000               | 46,280,000     |
| Total bonds payable before net premium and deferred amount on refunding  |                |                | 898,825,117              | 953,594,999    |
| Net premium on bonds payable   |                |                | 36,104,509               | 37,109,515     |
| Deferred amount on refunding of bonds  |                |                | (12,993,690)             | (14,598,461)   |
| Total bonds payable - General Fund   |                |                | 921,935,936              | 976,106,053    |
| Less current portion   |                |                | 52,221,290               | 54,852,382     |
| Long-term portion  |                |                | \$ 869,714,646           | \$ 921,253,671 |

The deferred amount on General Fund refunding will be amortized using the effective-interest method over the life of the new bonds.

Substantially all of the General Fund bonds have secondary security including bond insurance and a pledge of revenue from state sources distributed to governmental units.



# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

Changes in long-term debt are as follows:

|                                   | Beginning<br>Balance<br>October 1, 2003 | Proceeds             | Principal<br>Payments/<br>Extinguishments | Ending<br>Balance<br>September 30,<br>2004 | Due Within<br>One Year |
|-----------------------------------|---|----------------------|---|--|------------------------|
| Local Government Loan Program     |   |                      |   |  |                        |
| Revenue Bonds, Series 1986A       | \$ 2,610,000                            | \$ -                 | \$ (1,580,000)                            | \$ 1,030,000                               | \$ 200,000             |
| Equipment and Real Property       |   |                      |   |  |                        |
| Financing Program Bonds, Series G | 230,000                                 | -                    | (230,000)                                 | -  | -                      |
| Local Government Loan Program     |   |                      |   |  |                        |
| Revenue Bonds (Resolution 1989)   | 676,879,999                             | 67,985,000           | (116,964,882)                             | 627,900,117                                | 51,521,290             |
| School Loan Revenue Bonds         | 227,595,000                             | -                    | -   | 227,595,000                                | -                      |
| Long-term Public School           |   |                      |   |  |                        |
| Academy Bonds                     | 46,280,000                              | -                    | (3,980,000)                               | 42,300,000                                 | 500,000                |
| <b>Total</b>                      | <b>\$ 953,594,999</b>                   | <b>\$ 67,985,000</b> | <b>\$ (122,754,882)</b>                   | <b>\$ 898,825,117</b>                      | <b>\$ 52,221,290</b>   |

|                                   | Beginning<br>Balance<br>October 1, 2002 | Proceeds              | Principal<br>Payments   | Ending<br>Balance<br>September 30,<br>2003 | Due Within<br>One Year |
|-----------------------------------|---|-----------------------|-------------------------|--|------------------------|
| Local Government Loan Program     |   |                       |                         |  |                        |
| Revenue Bonds, Series 1986A       | \$ 3,390,000                            | \$ -                  | \$ (780,000)            | \$ 2,610,000                               | \$ 960,000             |
| Equipment and Real Property       |   |                       |                         |  |                        |
| Financing Program Bonds, Series G | 365,000                                 | -                     | (135,000)               | 230,000                                    | 50,000                 |
| Local Government Loan Program     |   |                       |                         |  |                        |
| Revenue Bonds (Resolution 1989)   | 543,640,898                             | 200,435,000           | (67,195,899)            | 676,879,999                                | 53,422,382             |
| School Loan Revenue Bonds         | 228,495,000                             | 227,595,000           | (228,495,000)           | 227,595,000                                | -                      |
| Long-term Public School           |   |                       |                         |  |                        |
| Academy Bonds                     | 46,580,000                              | -                     | (300,000)               | 46,280,000                                 | 420,000                |
| <b>Total</b>                      | <b>\$ 822,470,898</b>                   | <b>\$ 428,030,000</b> | <b>\$ (296,905,899)</b> | <b>\$ 953,594,999</b>                      | <b>\$ 54,852,382</b>   |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

The annual requirements for the General Fund to service debt outstanding as of September 30, 2004, including both principal and interest, are as follows:

|           | Principal             | Interest              | Total                   |
|-----------|-----------------------|-----------------------|-------------------------|
| 2005      | \$ 52,221,290         | \$ 60,736,926         | \$ 112,958,216          |
| 2006      | 71,661,914            | 57,032,517            | 128,694,431             |
| 2007      | 82,755,670            | 51,924,227            | 134,679,897             |
| 2008      | 80,931,765            | 49,096,497            | 130,028,262             |
| 2009      | 92,805,855            | 35,125,056            | 127,930,911             |
| 2010-2014 | 370,228,138           | 120,665,590           | 490,893,728             |
| 2015-2019 | 86,789,423            | 54,681,462            | 141,470,885             |
| 2020-2024 | 32,306,062            | 19,427,016            | 51,733,078              |
| 2025-2029 | 15,900,000            | 7,906,066             | 23,806,066              |
| 2030-2034 | 13,225,000            | 1,710,125             | 14,935,125              |
| Total     | <u>\$ 898,825,117</u> | <u>\$ 458,305,482</u> | <u>\$ 1,357,130,599</u> |

Bond maturities, less accreted interest on capital appreciation bonds, approximate the related receivables from governmental units as disclosed in Note 5.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

#### State Revolving Fund

Bonds payable of the State Revolving Fund consisted of the following at September 30:

| Series  | Date of Issue   | Original Issue | Amount Outstanding as of |                  |
|---|-----------------|----------------|--------------------------|------------------|
|   |                 |                | September 30             |                  |
|   |                 |                | 2004                     | 2003             |
| State Revolving Fund Revenue Bonds are used to provide low interest loans to municipalities. The bonds bear interest at rates ranging from 2.0% to 7.0% and are due at various dates between 2005 and 2026: |                 |                |                          |                  |
| State Revolving Fund Revenue Bonds, Series 1996A  | August 29, 1996 | \$ 86,750,000  | \$ 53,220,000            | \$ 58,210,000    |
| State Revolving Fund Revenue Bonds, Series 1997   | July 1, 1997    | 132,500,000    | 116,775,000              | 120,990,000      |
| Clean Water Revolving Fund Revenue Bonds, Series 1998   | July 15, 1998   | 151,165,000    | 132,750,000              | 139,025,000      |
| Clean Water Revolving Fund Revenue Bonds, Series 2001   | August 23, 2001 | 222,800,000    | 222,800,000              | 222,800,000      |
| Drinking Water Revolving Fund Revenue Bonds, Series 2001  | August 23, 2001 | 23,825,000     | 23,825,000               | 23,825,000       |
| Clean Water Revolving Fund Revenue Bonds, Series 2002A  | August 22, 2002 | 188,000,000    | 188,000,000              | 188,000,000      |
| Drinking Water Revolving Fund Revenue Bonds, Series 2002A   | August 22, 2002 | 72,735,000     | 72,735,000               | 72,735,000       |
| Clean Water Revolving Fund Revenue Bonds, Series 2002R  | August 22, 2002 | 469,100,000    | 436,955,000              | 451,335,000      |
| Drinking Water Revolving Fund Revenue Bonds, Series 2002R   | August 22, 2002 | 109,145,000    | 101,455,000              | 105,335,000      |
| Clean Water Revolving Fund Revenue Bonds, Series 2004A  | April 21, 2004  | 286,605,000    | 286,605,000              | -                |
| Drinking Water Revolving Fund Revenue Bonds, Series 2004A   | April 21, 2004  | 67,895,000     | 67,895,000               | -                |
| Subtotal  |                 |                | 1,703,015,000            | 1,382,255,000    |
| Premium on bonds payable  |                 |                | 99,398,794               | 78,077,127       |
| Deferred amount on refunding of bonds   |                 |                | (61,870,231)             | (69,147,287)     |
| Total bonds payable - State Revolving Fund  |                 |                | 1,740,543,563            | 1,391,184,840    |
| Less current portion  |                 |                | 45,300,000               | 33,740,000       |
| Long-term portion   |                 |                | \$ 1,695,243,563         | \$ 1,357,444,840 |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

The deferred amount on refunding will be amortized using the effective-interest method over the life of the new bonds.

Changes in long-term debt are as follows:

|                                       | Beginning<br>Balance<br>October 1,<br>2003 | Proceeds              | Principal<br>Payments/<br>Extinguishments | Ending<br>Balance<br>September 30,<br>2004 | Due Within<br>One Year |
|---------------------------------------|--|-----------------------|---|--|------------------------|
| State Revolving Fund<br>Revenue Bonds | <u>\$ 1,382,255,000</u>                    | <u>\$ 354,500,000</u> | <u>\$ (33,740,000)</u>                    | <u>\$ 1,703,015,000</u>                    | <u>\$ 45,300,000</u>   |

|                                       | Beginning<br>Balance<br>October 1,<br>2002 | Proceeds    | Principal<br>Payments/<br>Extinguishments | Ending<br>Balance<br>September 30,<br>2003 | Due Within<br>One Year |
|---------------------------------------|--|-------------|---|--|------------------------|
| State Revolving Fund<br>Revenue Bonds | <u>\$ 1,418,760,000</u>                    | <u>\$ -</u> | <u>\$ (36,505,000)</u>                    | <u>\$ 1,382,255,000</u>                    | <u>\$ 33,740,000</u>   |

The annual requirements for the State Revolving Fund to service debt outstanding as of September 30, 2004, including both principal and interest, are as follows:

|           | Principal               | Interest              | Total                   |
|-----------|-------------------------|-----------------------|-------------------------|
| 2005      | \$ 45,300,000           | \$ 85,201,565         | \$ 130,501,565          |
| 2006      | 58,815,000              | 83,616,669            | 142,431,669             |
| 2007      | 60,965,000              | 80,581,219            | 141,546,219             |
| 2008      | 76,985,000              | 77,119,638            | 154,104,638             |
| 2009      | 79,785,000              | 73,163,803            | 152,948,803             |
| 2010-2014 | 444,435,000             | 300,617,869           | 745,052,869             |
| 2015-2019 | 481,000,000             | 178,386,475           | 659,386,475             |
| 2020-2024 | 372,705,000             | 60,340,422            | 433,045,422             |
| 2025-2026 | <u>83,025,000</u>       | <u>5,447,375</u>      | <u>88,472,375</u>       |
| Total     | <u>\$ 1,703,015,000</u> | <u>\$ 944,475,035</u> | <u>\$ 2,647,490,035</u> |

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

#### State Water Quality Initiatives Fund

Bonds payable of the State Water Quality Initiatives Fund consisted of the following at September 30:

| Series   | Date of Issue  | Original Issue | Amount<br>Outstanding as of<br>September 30<br>2004 |
|--|----------------|----------------|---|
| Strategic Water Quality Initiatives Fund<br>Revenue Bonds, Series 2004 | March 18, 2004 | \$ 1,500,000   | \$ 1,500,000  |
| Discount on bonds payable  |                |                | (16,682)  |
| Total bonds payable - State Water Quality Initiatives Fund             |                |                | <u>\$ 1,483,318</u>                                 |

Changes in long-term debt are as follows:

|   | Beginning<br>Balance | Proceeds     | Principal<br>Payments/<br>Extinguishments | Ending<br>Balance | Due Within<br>One Year |
|---|----------------------|--------------|---|-------------------|------------------------|
| Strategic Water Quality Initiatives Fund<br>Revenue Bonds | \$ -                 | \$ 1,500,000 | \$ -                                      | \$ 1,500,000      | \$ 1,500,000           |

#### Defeased Debt

During the fiscal year 2004, the General Fund issued \$41,155,000 of Local Government Loan Program Revenue Bonds, Series 2004A with an average interest rate of 4.4 percent; the proceeds were used to partially refund various Local Government Loan Program Revenue Bonds in the amount of \$31,475,000 with an average interest rate of 6.2 percent. There is an economic gain of \$372,293 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$31,670,094 and the net carrying amount of the old debt of \$30,906,749. The net deferred accounting loss on refunding of \$763,345 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 7 years by approximately \$582,000.

# Michigan Municipal Bond Authority of the State of Michigan

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 9 - Bonds Payable (Continued)

#### Defeased Debt (Continued)

During the fiscal year 2004, the General Fund also issued \$26,830,000 of Local Government Loan Program Revenue Bonds, Series 2004B with an average interest rate of 3.9 percent; the proceeds were used to refund various Local Government Loan Program Revenue Bonds in the amount of \$24,630,000 with an average interest rate of 6.2 percent. There is an economic gain of \$1,846,361 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$24,090,158 and the net carrying amount of the old debt of \$24,302,177. The net deferred accounting gain on refunding of \$212,019 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 10 years by approximately \$5,352,000.

During the fiscal year 2003, the General Fund issued \$197,295,000 of School Loan Revenue Refunding Bonds, Series 2003A with an average interest rate of 5.2 percent, and \$30,300,000 of Federally Taxable School Loan Revenue Refunding Bonds, Series 2003B with an average interest rate of 2.9 percent; the proceeds were used to refund the remaining balance of the School Loan Revenue Bonds, Series 1998 in the amount of \$200,190,000 with an average interest rate of 5.0 percent. There is an economic gain of \$4,503,444 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$222,334,006 and the net carrying amount of the old debt of \$207,701,137. The net deferred accounting loss on refunding of \$14,632,869 will be amortized using the effective-interest method over the life of the new bonds. As a result, the bonds payable have been removed from the General Fund. The advance refunding increased total debt service receipts and payments over the next 11 years by approximately \$48,787,000.

In prior years, the General and State Revolving Funds defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At September 30, 2004, \$745,732,000 of bonds outstanding is considered defeased.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2004 and 2003

### Note 10 - Other Income

Other income consists of the following:

|  | 2004                | 2003                |
|--|---------------------|---------------------|
| Administrative fee from the Department<br>of Environmental Quality | \$ 2,659,662        | \$ 3,003,764        |
| Other income   | <u>1,433,604</u>    | <u>1,053,208</u>    |
| Total other revenue  | <u>\$ 4,093,266</u> | <u>\$ 4,056,972</u> |

The State Revolving Fund processes requests for reimbursement of costs from various federal set-aside grants awarded to the Department of Environmental Quality (DEQ). The State Revolving Fund does not record these reimbursements relating to DEQ's program as revenues or expenses. These federal funds, processed on behalf of DEQ, are reflected in DEQ's accounting records. During the years ended September 30, 2004 and 2003, \$1,825,369 and \$3,885,776, respectively, in federal set-aside grant funds, were requested by the state and submitted to DEQ.

### Note 11 - Contribution to MPEFA

During 2004 the loans receivable from University Preparatory Academy were paid in full. This resulted in the release of restricted assets for public school academies. These funds were transferred back to the Michigan Public Education Facilities Authority.

### Note 12 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan provides coverage for the Authority.

# Michigan Municipal Bond Authority of the State of Michigan

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 13 - Employee Benefits

**Plan Descriptions** - The Michigan Municipal Bond Authority participates in the State of Michigan's defined benefit and defined contribution plans that covers most state employees, as well as related component units such as the Michigan Municipal Bond Authority. The defined benefit plan provides retirement, disability, death benefits, and annual cost of living adjustment to plan members. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

**Funding Policy** - Plan members are not required to make contributions; the Michigan Municipal Bond Authority is required to contribute at an actuarially determined rate for the defined benefit plan of 4.02 and 3.68 percent of payroll for the years ended September 30, 2004 and 2003, respectively. The defined benefit contributions to the plan were equal to the required contributions for each year. The Michigan Municipal Bond Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent for the years ended September 30, 2004 and 2003. The contribution requirements of plan members and the Michigan Municipal Bond Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan.

**Post Employment Benefits** - In addition, the Michigan Municipal Bond Authority participates in the State of Michigan's post employment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you go basis. Employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements, will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.



## **Other Supplemental Information**

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Michigan Municipal Bond Authority  
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA  
Auditor General  
State of Michigan  
Lansing, Michigan

We have audited the basic financial statements of the Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the years ended September 30, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Michigan Municipal Bond Authority. This information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 27, 2004

# Michigan Municipal Bond Authority of the State of Michigan

## State Revolving Fund Combining Schedule of Net Assets

|   | Clean Water Program     |                         | Drinking Water Program |                       | Total                   |                         |
|---|-------------------------|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
|   | September 30            |                         | September 30           |                       | September 30            |                         |
|   | 2004                    | 2003                    | 2004                   | 2003                  | 2004                    | 2003                    |
| <b>Assets</b>                               |                         |                         |                        |                       |                         |                         |
| Cash  | \$ 15,754               | \$ 13,266               | \$ 212,963             | \$ 26,945             | \$ 228,717              | \$ 40,211               |
| Investments                                 | 1,282,181,452           | 1,062,142,415           | 286,666,797            | 227,667,536           | 1,568,848,249           | 1,289,809,951           |
| Accrued interest receivable                 | 9,228,986               | 11,223,612              | 2,411,625              | 2,207,594             | 11,640,611              | 13,431,206              |
| Deferred charges, net                       | 10,321,264              | 8,421,401               | 2,034,543              | 1,513,470             | 12,355,807              | 9,934,871               |
| Receivable from State of Michigan           | 17,826,322              | 19,511,604              | -                      | -                     | 17,826,322              | 19,511,604              |
| Loans receivable                            | 1,374,460,645           | 1,247,383,326           | 231,737,110            | 179,321,284           | 1,606,197,755           | 1,426,704,610           |
| Other receivables                           | 2,876,837               | 247,833                 | 2,767,532              | 631,736               | 5,644,369               | 879,569                 |
| Total assets                                | <b>\$ 2,696,911,260</b> | <b>\$ 2,348,943,457</b> | <b>\$ 525,830,570</b>  | <b>\$ 411,368,565</b> | <b>\$ 3,222,741,830</b> | <b>\$ 2,760,312,022</b> |
| <b>Liabilities and Net Assets</b>           |                         |                         |                        |                       |                         |                         |
| <b>Liabilities</b>                          |                         |                         |                        |                       |                         |                         |
| Accounts payable and other liabilities      | \$ 5,197,835            | \$ 6,906,290            | \$ 437,700             | \$ 739,205            | \$ 5,635,535            | \$ 7,645,495            |
| Due to other governmental units             | 445,872                 | 671,454                 | 68,129                 | 581,234               | 514,001                 | 1,252,688               |
| Accrued interest payable                    | 36,062,562              | 30,340,346              | 6,569,910              | 5,206,356             | 42,632,472              | 35,546,702              |
| Deferred revenue                            | 4,763,591               | 1,052,915               | 6,178,159              | 11,335,946            | 10,941,750              | 12,388,861              |
| Bonds payable                               | 1,465,739,659           | 1,185,277,326           | 274,803,904            | 205,907,514           | 1,740,543,563           | 1,391,184,840           |
| Total liabilities                           | 1,512,209,519           | 1,224,248,331           | 288,057,802            | 223,770,255           | 1,800,267,321           | 1,448,018,586           |
| <b>Net Assets</b>                           |                         |                         |                        |                       |                         |                         |
| Restricted                                  |                         |                         |                        |                       |                         |                         |
| Water pollution and drinking water projects | 1,184,701,741           | 1,124,695,126           | 237,772,768            | 187,598,310           | 1,422,474,509           | 1,312,293,436           |
| Total liabilities and net assets            | <b>\$ 2,696,911,260</b> | <b>\$ 2,348,943,457</b> | <b>\$ 525,830,570</b>  | <b>\$ 411,368,565</b> | <b>\$ 3,222,741,830</b> | <b>\$ 2,760,312,022</b> |

# Michigan Municipal Bond Authority of the State of Michigan

## State Revolving Fund Combining Schedule of Revenue, Expenses, and Changes in Net Assets

|   | Clean Water Program     |                         | Drinking Water Program |                       | Total                   |                         |
|---|-------------------------|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
|   | September 30            |                         | September 30           |                       | September 30            |                         |
|   | 2004                    | 2003                    | 2004                   | 2003                  | 2004                    | 2003                    |
| <b>Operating Revenue</b>                          |                         |                         |                        |                       |                         |                         |
| Interest  | \$ 64,608,987           | \$ 58,928,538           | \$ 11,891,339          | \$ 9,537,137          | \$ 76,500,326           | \$ 68,465,675           |
| Other   | 2,246,059               | 1,902,729               | 413,603                | 1,101,035             | 2,659,662               | 3,003,764               |
| Total operating revenue                           | 66,855,046              | 60,831,267              | 12,304,942             | 10,638,172            | 79,159,988              | 71,469,439              |
| <b>Operating Expenses</b>                         |                         |                         |                        |                       |                         |                         |
| Interest expense                                  | 65,065,786              | 54,748,459              | 10,948,712             | 9,046,985             | 76,014,498              | 63,795,444              |
| Amortization of deferred charges, net             | 906,151                 | 832,972                 | 155,767                | 134,759               | 1,061,918               | 967,731                 |
| Salaries, wages, and other administrative         | 2,246,058               | 2,200,032               | 391,117                | 1,177,353             | 2,637,175               | 3,377,385               |
| Total operating expenses                          | 68,217,995              | 57,781,463              | 11,495,596             | 10,359,097            | 79,713,591              | 68,140,560              |
| <b>Operating Income (Loss)</b>                    | (1,362,949)             | 3,049,804               | 809,346                | 279,075               | (553,603)               | 3,328,879               |
| <b>Nonoperating Revenue - Operating subsidies</b> | 61,369,564              | 71,909,434              | 49,365,112             | 33,109,716            | 110,734,676             | 105,019,150             |
| <b>Change in Net Assets</b>                       | 60,006,615              | 74,959,238              | 50,174,458             | 33,388,791            | 110,181,073             | 108,348,029             |
| <b>Net Assets - Beginning of year</b>             | 1,124,695,126           | 1,049,735,888           | 187,598,310            | 154,209,519           | 1,312,293,436           | 1,203,945,407           |
| <b>Net Assets - End of year</b>                   | <u>\$ 1,184,701,741</u> | <u>\$ 1,124,695,126</u> | <u>\$ 237,772,768</u>  | <u>\$ 187,598,310</u> | <u>\$ 1,422,474,509</u> | <u>\$ 1,312,293,436</u> |

# Michigan Municipal Bond Authority of the State of Michigan

## State Revolving Fund Combining Schedule of Cash Flows

|  | Clean Water Program     |                | Drinking Water Program  |                | Total                   |                |
|--|-------------------------|----------------|-------------------------|----------------|-------------------------|----------------|
|  | Year Ended September 30 |                | Year Ended September 30 |                | Year Ended September 30 |                |
|  | 2004                    | 2003           | 2004                    | 2003           | 2004                    | 2003           |
| <b>Cash Flows From Operating Activities</b>                                |                         |                |                         |                |                         |                |
| Cash payments to employees and suppliers for goods and services            | \$ (2,233,713)          | \$ (2,335,348) | \$ (380,631)            | \$ (1,227,494) | \$ (2,614,344)          | \$ (3,562,842) |
| Other operating revenue  | 1,677,914               | 1,951,937      | 367,003                 | 748,247        | 2,044,917               | 2,700,184      |
| Net cash used in operating activities                                      | (555,799)               | (383,411)      | (13,628)                | (479,247)      | (569,427)               | (862,658)      |
| <b>Cash Flows From Noncapital Financing Activities</b>                     |                         |                |                         |                |                         |                |
| Proceeds from sale of bonds and notes                                      | 310,899,099             | -              | 73,243,458              | -              | 384,142,557             | -              |
| Payment of bond issue costs  | (2,806,014)             | -              | (676,840)               | -              | (3,482,854)             | -              |
| Principal paid on bonds and notes  | (29,860,000)            | (32,695,000)   | (3,880,000)             | (3,810,000)    | (33,740,000)            | (36,505,000)   |
| Interest paid on bonds and notes   | (61,641,136)            | (51,232,252)   | (10,364,217)            | (7,911,904)    | (72,005,353)            | (59,144,156)   |
| Operating subsidies  | 62,793,799              | 70,322,869     | 41,605,024              | 33,479,742     | 104,398,823             | 103,802,611    |
| Proceeds on receivables from State of Michigan                             | 1,640,000               | 1,605,000      | -                       | -              | 1,640,000               | 1,605,000      |
| Net cash provided by (used in) noncapital financing activities             | 281,025,748             | (11,999,383)   | 99,927,425              | 21,757,838     | 380,953,173             | 9,758,455      |
| <b>Cash Flows From Investing Activities</b>                                |                         |                |                         |                |                         |                |
| Loans made to local government units                                       | (202,193,111)           | (226,279,451)  | (65,198,151)            | (37,501,532)   | (267,391,262)           | (263,780,983)  |
| Principal received on loan repayments                                      | 75,115,792              | 59,213,676     | 12,782,325              | 6,896,095      | 87,898,117              | 66,109,771     |
| Interest received on loan repayments                                       | 31,659,516              | 27,567,118     | 5,174,640               | 4,033,191      | 36,834,156              | 31,600,309     |
| Net (purchases) proceeds from sale and maturities of investment securities | (220,039,037)           | 113,470,853    | (58,999,261)            | (2,433,120)    | (279,038,298)           | 111,037,733    |
| Interest and dividends on investments                                      | 34,989,379              | 30,964,603     | 6,512,668               | 4,048,573      | 41,502,047              | 35,013,176     |
| Net cash provided by (used in) investing activities                        | (280,467,461)           | 4,936,799      | (99,727,779)            | (24,956,793)   | (380,195,240)           | (20,019,994)   |

# Michigan Municipal Bond Authority of the State of Michigan

## State Revolving Fund Combining Schedule of Cash Flows (Continued)

|  | Clean Water Program     |                     | Drinking Water Program  |                     | Total                   |                     |
|--|-------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
|  | Year Ended September 30 |                     | Year Ended September 30 |                     | Year Ended September 30 |                     |
|  | 2004                    | 2003                | 2004                    | 2003                | 2004                    | 2003                |
| <b>Net Increase (Decrease) in Cash</b>   | \$ 2,488                | \$ (7,445,995)      | \$ 186,018              | \$ (3,678,202)      | \$ 188,506              | \$ (11,124,197)     |
| <b>Cash - Beginning of year</b>  | 13,266                  | 7,459,261           | 26,945                  | 3,705,147           | 40,211                  | 11,164,408          |
| <b>Cash - End of year</b>  | <u>\$ 15,754</u>        | <u>\$ 13,266</u>    | <u>\$ 212,963</u>       | <u>\$ 26,945</u>    | <u>\$ 228,717</u>       | <u>\$ 40,211</u>    |
| Reconciliation of operating income to net cash provided by (used in) operating (loss) activities:        |                         |                     |                         |                     |                         |                     |
| Operating income (loss)  | \$ (1,362,949)          | \$ 3,049,804        | \$ 809,346              | \$ 279,075          | \$ (553,603)            | \$ 3,328,879        |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                         |                     |                         |                     |                         |                     |
| Interest income reported as cash flows from investing activities   | (64,608,987)            | (58,928,538)        | (11,891,339)            | (9,537,137)         | (76,500,326)            | (68,465,675)        |
| Interest expense reported as cash flows from noncapital financing activities                             | 65,065,786              | 54,748,459          | 10,948,712              | 9,046,985           | 76,014,498              | 63,795,444          |
| Amortization of deferred charges   | 906,151                 | 832,972             | 155,767                 | 134,759             | 1,061,918               | 967,731             |
| Changes in assets and liabilities:   |                         |                     |                         |                     |                         |                     |
| (Increase) decrease in receivables   | (342,563)               | 49,208              | 778,496                 | (494,311)           | 435,933                 | (445,103)           |
| Increase (decrease) in payables  | (213,237)               | (135,316)           | (814,610)               | 91,382              | (1,027,847)             | (43,934)            |
| Net cash used in operating activities  | <u>\$ (555,799)</u>     | <u>\$ (383,411)</u> | <u>\$ (13,628)</u>      | <u>\$ (479,247)</u> | <u>\$ (569,427)</u>     | <u>\$ (862,658)</u> |